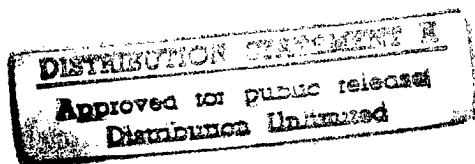


**FOREIGN  
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# ***JPRS Report***



# **East Europe**

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# East Europe

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1 August 1992

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### Article Describes Rural 'Destitution'

AU1507141292 Tirana ZERI I POPULLIT in Albanian  
5 Jul 92 p 2

[Zenel Gabaj article: "The Sufferings of My Villagers"]

[Text] Only two private cars, once the property of the cooperative, travel the road to the Lops area daily. Asqer and Veiz cram their cars with people from the five local villages who take their troubles to Tepelene. There is the same sight in the afternoon as they return. These are the only vehicles available for passenger transportation—for the sick, wedding guests, and joys and sorrows of all kinds. What are my villagers' problems? During the electoral campaign last March, they asked Democratic Party candidate Blerim Cela what will be done about the road and the "suspended" bus service. "Construction will start on the bridge over the Vjose on 23 March," he said, "and the bus service will start as soon as it is completed," (adding, "of course, if you vote for me.") They gave him their votes, but today's minister has forgotten his promises of small tractors, bread bakeries, and the bridge over the river (Amazing, old people say, the people were never so deceived even in Zog's time).

Before you reach the center of this remote mountain area, the first village of Lab-Matallozi appears unexpectedly in front of you. More striking than the destruction of the school and the former administrative buildings is the sight of the graves of two 25-year-old men who died far away in exile, one in Greece and the other in Italy. Their memory hangs as heavy as a stone in the hearts of their parents and fellow villagers, heavier than anxiety and hunger for bread, worse than the suffering caused by the lack of water. These deaths caused the worst grief in the time of democracy. The village's fine and upstanding sons fled in the exodus, hoping to do their families some good with a handful of drachmas or lire. They "returned" with a loan from their friends, however, who gave their last cent to receive their bodies from the morgue and to pay for the coffin and the expenses of the journey.

Dhemblan comes next, the largest village with more than 200 families, whose center was once something to admire with its museum, house of culture, and up-to-date administrative buildings. Everything is now a ruin, swept up in the wave of destruction of the "zero hour" preached by those who wield power today. Only the school was saved from this tragedy, thanks to the efforts of the teachers, sons of this village. Once a clean village, like all villages in the mountains, Dhemblan is now the opposite. The shortage of soap and washing powder has forced young brides and girls to learn from the old women how to prepare lye. There is almost a near epidemic of lice and fleas. In every house, they say that things were not so bad even in Zog's time. Living at "zero hour" means that every house must necessarily have at least four members of the family more than 18 to 20 years old: one to stay away from the house all year

with the animals; one to collect firewood; one to concentrate on preparing and baking bread; and one to maintain the house. This is the reality. We are not adding or subtracting anything. Many households live in this kind of destitution, not only here but in Matohasanaj, Dorez, and Sinanaj. No one signs a work roster. Meanwhile, food supplies have been forgotten for more than three months. A little milk and bread whets the appetite of children and adults. It takes time for the grain from our European friends to get here, perhaps longer to reach the families than to travel across the seas, and it perhaps costs more than the state originally pays for it.

Are these not the sufferings of my villagers? There are others. The land, once considered a source of material prosperity and the basis of employment, has now become an apple of discord among the local peasants and villages, who have still not determined boundaries or are unable to agree on them. This is the first problem: Lack of confidence in law enforcement has taken deep root. The "flood" of promises made in the electoral campaign has robbed the present wielders of power of all seriousness. The Labs are people of their word, and, like other people, they have been let down. There was the offer of "affluence" with different kinds of bread, telephones for every family, regular supplies of what-not from Europe, a world of shops, and "efforts" to reach agreements with foreign firms with guarantees made by yesterday's opposition. Also in a spirit of "let's give it a try," they gave the victory to Blerim Cela, promoting him to the post of minister.

Now the villages of the entire region are paying with their "disillusionment." Have they come to their senses to some extent? It is their right to think and to judge again in the new local government elections. I would remind them of only one thing—salt. This salt is produced in Vlore, where the car road leads. Say what you like about the basket [of staple foodstuffs whose prices are officially frozen], its price has now reached 10 leks a kilogram.

How much more suffering is this region to undergo? A 45-year-old man in Matohasanaj died. He was a respected shepherd in the cooperative, soft-spoken to his family and in society. The impoverished state was unable to send him abroad for medical treatment, but at least his relatives should have been present on the day of his death. That is the tradition, but how could they be informed? The telephone line was down, although not only families but each individual household is supposed to receive an "electronic telephone." Sister had to reach brother by donkey. They had to travel all night in order to inform their relatives. How awful! These people are experiencing one pain after another. In this case, several families from the village, almost an entire clan, did not take part in the funeral because of quarrels over the "old boundaries" and the unfair seizure of arable land and gardens. People are alienated from each other. And tomorrow?

A kind word carries weight. Tradition is being violated. Are we reverting to the past? Is disunity replacing togetherness? Will economic and spiritual destitution replace roughly average living standards? Is democracy to blame? Not at all. The residents of these parts know how to appreciate the difference between life under a dictatorship and democracy. The difference lies in who lays down the law and who holds power. They feel pain at this, but they never have been and are not short of common sense. These villages have given birth to plenty of boys and girls who will decide themselves whom to vote for.

### **Polican Combine Strikers Protest Layoffs**

*AU1407081592 Tirana PASQYRA in Albanian  
30 Jun 92 pp 1-2*

[Ilirjan Visari article: "The Truth About Polican"]

[Text] The workers of the military production combine at Polican have now been on strike for two weeks. The strikers are demanding "Work, bread, and life!" It is the malicious disinformation spread by the Defense Ministry spokesman that has given the strike a political hue.

The public is concerned to know the truth about the strike that began two weeks ago in Polican of Skrapar District. Many opinions have been heard about it, viewing the case from different angles in different newspapers, but it was the statement of the Defense Ministry spokesman, which in many respects did not correspond to reality, that created the greatest confusion. In order to shed light on the truth, we met and talked with workers, trade unionists, and members of the strike committee.

Azis Veizi, trade unionist and member of the Independent Trade Union Federation of Civilian Defense Workers, told us:

We were asking for bread, not sinecures. Everybody in Polican calls Njazi Spahiu, the manager appointed by the ministry, the "minister." He is an agricultural economist who studied at night school and does not know a thing about the combine, while we in the combine have hundreds of able specialists with much more knowledge and experience. He was put at their head solely because he is a blind follower of the Democratic Party. When the strike committee asked him to explain to the strikers the malicious disinformation spread by the press, radio, and television, he said: "I publicly state that I know nothing about the Defense Ministry spokesman's statement issued to the Radio-Television..." However, when we asked him to sign a joint statement denying this disinformation, he refused to do so. This led the talks with him down a blind alley. He went on to say, "I denounced the strike to the prosecutor as illegal at a time when I had lost confidence in my ability to control the situation.... Let us forgive and forget." However, we cannot continue talks in the arbitration committee that has been created without settling this point of who is responsible for this lying declaration, because the situation is very tense and I can say that it involves not only the 2,500 people who

signed up for the strike but the entire 12,000-strong population of Polican, who would not stand for such a thing.

Alfred Lulaj, chairman of the Polican Combine Trade Union Council, said:

Our claims are purely economic, and are to guarantee our work and livelihood. Every family in Polican has two or three people employed at the combine. Its closure would be a tragedy for the town's 12,000 inhabitants. Everybody, even old people and children, has therefore taken a stand in order to guarantee the continuation of their normal lives. However, there is no chance of this if only 33 percent of the work force, or 1,200 people, are to be employed as the ministry claims, and even these only for two months, while the other 1,800 workers are to be thrown on the street without hope. A total of 1,788 workers are receiving invalid benefits because of occupational sicknesses attributable to the harsh working conditions at the combine. Twenty-two workers have died in accidents at work. Forty have become chronic invalids, without counting those less seriously injured. It is therefore obvious that not only the workers' lives but the graves of their relatives and comrades are closely tied to this combine. The workers' demands are not new. They were made months ago, and, after the government's indifference, an organized strike is justifiable as a final means of achieving the workers' fair and democratic rights. They accuse our strike of having political ends, but this is not in the least true. A few days ago, a meeting was held with the leaders of the main parties in the district, the Socialist, Democratic, Republican, and Social Democratic Parties, at their request. Somebody suggested that representatives of the "independent" trade unions should also sit down at the roundtable. We refused this, because there are very few of us who are members of this trade union. They have not only failed to support the strike, but have played the roles of strikebreakers with their manipulations and provocations of various kinds. The meeting was held. The four district party chairmen called our demands fair and economic, and promised that they would try to solve them. Mustafa Nano himself, the chairman of the Democratic Party's Managing Council in Skrapar, said that he would contact all levels of the state authorities, who would come and sit down at the table in order to talk with us and solve the problems.

Zaim Zaimi, trade unionist, told us:

The attitude of Njazi Spahiu, the "minister's" manager, has been provocative throughout the last few days. He not only does not understand that when 3,000 workers do not want you as manager there is nothing you can do but hand in your resignation, but has deliberately annoyed the indignant people to the extent that in some cases we have been obliged to come forward and protect him from undesirable incidents that could be used to give a different color to the strike and place it on political lines.

Shahin Guri, member of the Strike Committee, told us:

What one might call another provocation on the part of the manager has been the recent compilation of lists of certain workers who are to resume work, including about 150 workers out of the combine's total work force of 3,000. This is a provocation because its aim is to divide us and to remove from our ranks those who are "guaranteed work" by the minister's manager. This is a subtle policy, but not one that the monolithic mass of working people will swallow.

Agush Elezi, member of the Trade Union Council and Democratic Party member, said:

They unfairly accuse us of being manipulated by political parties for their own ends. They allege that there were slogans shouted at demonstrations such as: "We want democracy without the Democratic Party," or "We will march on Tirana." These rumors are malicious from beginning to end, and are totally untrue. Our main slogan is, "We want work. We want to build Albania, not Greece."

Tomor Kreku, member of the Strike Committee, said:

The situation would not have deteriorated to this point if there had been a sincere inclination to solve our problems on the part of Minister Safet Zhulali and the manager he appointed. As for the accusations leveled against us alleging that we are disrupting public order and instigating a breakdown of democracy, I want to emphasize that we are heart and soul in favor of the reforms and genuine democracy. This is shown by the fact that not only has nothing been destroyed or damaged during the two weeks of the strike here, as some claim, but not a blade of grass has been touched. The strike is entirely peaceful and purely over economic demands.

Asllan Dashi, trade unionist, said:

I am an economist. If the government and our ministry were to show a serious commitment to meeting our demands, defining the status of civilian defense workers, accelerating the approval of a pension law, and drawing up a clearly scheduled program for the problems of employment that we raised, the situation would certainly calm down. Our trade union has also submitted specific alternative solutions. According to only one study of pensions that was carried out, about 700 people could retire and work would be required for the 2,300 others.

Kurtali Salias, trade unionist, said:

I was disgusted when I heard the provocative announcement of the minister's manager about some workers' resuming work in technical departments, according to lists. This was a bluff, because these departments cannot work if the boilers are not lit. The boilermen have been excluded from these lists and have not even received their wages for the last two-week pay period. This shameless character is playing on the nerves of the mass of workers and trifling with their feelings.

"I want to add something," Alfred Lulaj said. "It must be clear to everybody that we are determined to press our demands to the end. We have met with the support of our sister trade union organizations in this. Trade union councils in military units throughout the country, trade union federations, district trade union councils, and thousands of workers throughout Albania have sent us dozens of telegrams. I am confident that they will support us by every legally recognized means if the government fails to take steps to find an effective way to solve our problems and to calm the situation.

This discussion with the trade unionists requires no comment. Let us see how the course of events will run. Nobody desires this embittered situation, which is no longer supportable. We tell SINDIKALISATI that your pistol's trigger has stuck.

### Human Rights Activist Puto Deemed 'Unworthy'

AU0707195392 Tirana LIRIA in Albanian  
19 Jun 92 p 6

[Pirro Vila article: "Enough, Mr. Puto"]

[Text]

I heard on Albanian Television on 29 March 1992 the news of the full membership of the Albanian Forum for the Defense of Human Rights in the Helsinki Federation. I was pleased at this achievement of Albanian democracy, but I was disillusioned when I heard at the same time your interview, pervaded by a melodramatic tone and full of stale phrases about democracy. Let me say from the start: You are unworthy of leading this noble and honored forum, because you were always a loyal servant of the Enverist dictatorship that trampled down honest people.

The students of the Qemal Stafa High School in Tirana remember very well that your arrival there in the immediate postwar years marked the start of an outright physical and psychological terror against those students who had noncommunist ideas that differed in the slightest from your own. You were one of the main organizers of all that thuggery against democratic students, in which they were beaten, thrown down stairs, and subjected to blackmail, expulsion, and even arrest. All these things bear your signature. You may have forgotten, but those who were persecuted will not forget easily, and they demand only one thing from you: your disappearance once and for all from the Albanian political scene.

In all your "works," in which you pretend to handle with the "skill" of a diplomat and historian the efforts of pre-1939 Albanian diplomacy, you always turn white into black and have two main goals: to disparage this diplomacy's struggles and to exalt the merits of the dictator Enver Hoxha, who, in your words, was "a perfect architect" in this field, too.

In your "studies," which lasted several decades, you took it upon yourself to sully the efforts of Albanian diplomacy during the war and to label the Albanian diplomats of this period, who perhaps sacrificed even their lives to defend the country's noble interests, as "reactionaries" and "careerists," terms that would better suit you than those honest patriots.

The 1970's were tough for Hoxha's despotic regime. The regime's international isolation grew ever worse: Nixon's visit to China in 1972, the course of events on the Indochina peninsula, U.S.-Soviet detente, and the opening of the communist countries of Eastern Europe to Western democracy terrified the dictator of Tirana. Under these circumstances, communist diplomacy was obliged to stress the Anglo-American danger to Albania. It was not by accident that you were appointed one of the main leaders of the strategy of Hoxha's diplomacy; together with a relative of Hysni Kapo, you flew to London as a "university researcher" less than one year after the British Government opened the documents of World War II (before the 50-year waiting period was over). You travelled, as you yourself put it, "to the other side, to the camp of our opponents and our enemies." According to you, the task was not an easy one, but was performed to discover the "ugly picture of the incredible plots and intrigues hatched to the detriment of Albania by those who pretended to be her allies."

You did your duty very well, assembling all the "archive material" that was to help you to determine Albanian policies in the second half of the 1970's and in the 1980's and to serve up to Hoxha fragments of photographed documents that he would need as evidence for the later physical extermination of his close friends, as in the case of Mehmet Shehu (E. Hoxha, *The Titoites*, p. 552), an incident that arose as a result of political isolation and of a savage struggle within Hoxha's clan.

To sensitize the Albanian public to this danger, your book, *Through the Annals of British Diplomacy*, with its academic garb (although it is utterly unacademic), gave the first signal of the "Anglo-American danger to Albania," and stressed the idea of relying on our own resources. You slung mud at the great assistance the Western democracies rendered to us in the liberation struggle of our people in World War II, calling their missions "military missions that performed the work of agents."

Nor should one discount the fact that there is a very close similarity between the aforementioned book and Hoxha's *Anglo-American Danger to Albania*, which appeared soon afterward, to the extent that it often seems that one is reading the same book. This was easy for readers to understand. Meanwhile, times were changing, and ordinary people began to understand that your demagoguery was coming to an end.

If you were unable to "satisfy" the Albanian reader with the promised study on the question of the recognition of the 1945 government, this was perhaps because it was

not completed for the reason that your taskmaster had used up all your trump cards, publishing the material in his own book.

When Hoxha died in April of 1985, we saw you on the television screen, exalting the merits of this "great man" of our people in tones of pathos and with tears in your eyes. You were right to weep for him, because you were always close to him, and he gave you the "visa" of communist diplomacy.

However, not a long time passed before you began to speak in the language of the chairman of the Human Rights Forum! An important and sudden turnabout, Mr. Arben! I was not disappointed; this merely proved my opinion of you as a miserable depersonalized creation of Hoxha and his ideology. For me, this was a final warning of the end of the dictatorship.

A man has certain principles, for which he will give his life if need be. There is no question of this in your case! One day, you did not hesitate to cross the Atlantic Ocean and to speak on the Voice of America, a station respected by all Albanians, which gave us hope and courage in the darkest and worst days of our 47 years of oppression. You spoke about Western democracy (What a paradox!), about which you had left nothing unsaid throughout your life!

Do you think that the time has come to leave the respected post of chairman of the Albanian Helsinki Committee and at the same time depart from the Albanian political stage?

In the other part of our homeland, separated from its maternal soil, Mr. Adem Demaci, a colossus of our nation, stands at the head of this institution. The democratic world has properly paid tribute to this Albanian Sakharov. The times demand that here in Albania, too, such a personality should lead the Albanian Helsinki Committee, because there are Adem Demacis here too, who were shut up for decades on end in the dark jails and internment camps of Hoxha. There are also Albanian Sakharovs here, who have the right to lead this highly respected humanitarian institution.

Honest people are now allergic to you. They no longer want to hear your voice or see your face on television. The wind of freedom and democracy now blowing in Albania cannot endure vestiges of the past. History is merciless. This teacher of life gives people what they deserve according to their deserts before their own people; it raises some on a pedestal and makes them immortal, while throwing others into the garbage can! This is the merciless law of this teacher, life.

Note: All quotations are taken from Mr. Arben Puto's [chairman of the Forum for the Defense of Human Rights] "work," *Through the Annals of British Diplomacy*.

### Article Outlines PD Platform for Rural Vote

AU1607090292 Tirana RILINDJA DEMOKRATIKE  
in Albanian 30 Jun 92 p 1

[Petro Dhimitri article: "The Peasant Cannot Vote for the Socialist Party"]

[Text] I was prompted to write this article by a slogan written on the wall of the peasants' market in the center of Tirana. Someone (erroneously) wrote, "The PSSh [Albanian Socialist Party] will win. The countryside is with us." Someone else had replaced PSSh with PD [Democratic Party]. He too had misbehaved by vandalizing what little charm our buildings retain. Nevertheless, regardless of aesthetics, the idea behind this slogan made me think, leading me naturally to the question: "Why did the countryside not and why will it not vote for the PSSh?"

First, the PPSH [Albanian Party of Labor], which had maximum support from rural areas in winning World War II, carried out agrarian reform immediately after the liberation. This was a cause of great joy for the peasants, because it encroached on the interests of the few great landowners, whose land was seized without compensation. Rather than compensation, they were often shown the way to the prison gates.

This reform, however, was a ploy of the party and Enver Hoxha, who wished to court the peasantry for a short time. Very soon, the dictatorship put forward the idea of socialist collectivization (i.e. socialist devastation) of the countryside. In some places "voluntarily," and in some places with direct pressure and coercion, collectivization was "successfully" completed after many years, even in mountain villages. Nevertheless, the land was called group property because the peasants were supposed to have joined voluntarily. This was later shown to be a big lie.

As if the peasants did not have worries enough, they were turned into day laborers for a wage of a very few leks on the land of their own forefathers. Even the cooperativists' farmyard was gradually eroded. First it was made smaller, and later reduced to a bare minimum following an initiative from "below" (contrived by the bootlickers of the dictator above). This was not all. The demented idea of creating small herds out of the cooperativists' personal livestock was launched. The result was that village families were left without a glass of milk, without a drop of whey, and without a spoonful of butter. The insanity of the Albanian communists went to the point that in many regions one first secretary or another, i.e. the local squire, did not even allow the peasants to keep chickens!

Even after the dictator's death, his successors devised the farce of peasants receiving two lambs to raise. A peasant was supposed to keep the ram and hand over the ewe to the cooperative at a predetermined price. Thus, the idiotic idea was blared forth that the PPSH, like a kindhearted mother, was creating the opportunity for

every peasant family to have one lamb, i.e. 25-30 kg of meat, each year. For a family of four, this came to rather less than two kg of meat a month. But only meat, because the ewe and the lamb had to be handed back.

It is difficult for any pen to describe the great suffering of the Albanian cooperativist peasant, who was left landless and totally disillusioned by the PPSH. He began to lose his feelings for the land, to forget his love for it, inherited through the centuries, and to look at it as something belonging to the state. He "picked" a share of the produce at night because wages were miserable. After all, the peasant was merely harvesting the fruits of his own labor on his own land, which communism had taken from him.

Some readers will say that these were the exploits of the PPSH, while the PSSh is a new party. If it really were new, the PSSh would not only not have been led first by some of the former PPSH second-rank "heroes," but would have proved itself in the countryside. How? Very simply: When it was approving the Land Law during the time of its parliamentary majority under the Stability Government, it would have issued an order for the peasants to reclaim the land they had contributed to the creation of the cooperative. Were the cooperatives group property? Did the peasants join them voluntarily? If so, why should not each take back the share he had contributed? Of course, some pieces of land have been used for construction. Such families must, of course, be considered and given tracts of new land. In this way, the cowsheds, greenhouses, and other buildings would not have been destroyed. The main thing is that the peasants would have believed that the PSSh is a new party, because it had given them back the land they had possessed through the generations. It would have exposed the truth that it was communism that lied to the peasantry by giving them land in the agrarian reform and then taking it away from them by a trick, introducing the name of a cooperative.

That is why the rural areas did not vote for the PSSh candidates in the 22 March elections, and why I believe it will not do so in the elections for communes and municipalities. The peasants appreciate the stand of the PD, which fought to give them land and to enable them to become masters of their own destinies. The grant of land is only one aspect, however. It is only the departure point toward the ideal of personal profit. I asked a peasant from near Tirana, from whom I was buying onions, "Is it better now or under the cooperative?" He said, "No question about it. When we were in the cooperative, we forgot how to live. This year, from the sales I have made, I have bought things I could not have afforded in 40 years under the cooperative." Nevertheless, the task of democracy is not only to give land to the peasants. This land requires machinery, fertilizer, and irrigation. These peasants, martyred for half a century, require financial assistance. Of course, this cannot all happen at once, but will be achieved little by little and with a great deal of labor. Fertilizers have arrived, and genuine initiatives have been launched to join several

families or small villages together. Some forms of joint property have arisen. All these things are in their infancy. It is a promising start, because the peasants today have a strong motivation to produce and sell as much as possible. The market demonstrates this now, and is expected to improve in the future.

There are and will be complaints. It is not possible to build a new state on ruins without pain and misery. When a peasant goes to the ballot box, however, he knows that it was communism that seized his land and that it was the PPSH and PSSh that hounded him from

the city streets when he sold a few onions or eggs. Peasants used to venture out in fear to earn a few leks, disappearing like ghosts at the shadows of policemen, who would take them to the station for a "cuddle." But now it is, "What have you got to sell, brother villager?" This is the invitation of democracy. The day will come when peasants will deliver their goods in their own cars or when tradesmen will go out to the fields to buy it, as in democratic countries, but not in the countries under the sway of the "brothers" of the Albanian communists or socialists, who never stop saying, "We have reformed...."

### **Introduction of New Radiation Protection Devices**

*AU2907135792 Sofia BULGARSKA ARMIYA  
in Bulgarian 21 Jul 92 p 2*

[Article by Liliya Kostadinova]

[Text] The detachments and brigades of the restructured Civil Defense will protect us from disasters, accidents, and disasters not merely with pure enthusiasm but also with the help of science.

The Bulgarian Intervention and Security Robot RIS-1 will cost approximately 800,000 leva. The robot has been developed by the Bulgarian Academy of Sciences' Institute of Mechanics and Electronics and can operate in environments dangerous for human beings. The robot will be fitted with a built-in camera, radiation-dosage measuring equipment, and other special apparatus needed for rescue operations. It is able to surmount obstacles and eliminate or transfer radioactive sources.

According to Colonel Goran Tachev, deputy chief of Civil Defense, the main job still to be done is to introduce an extremely beneficial beer-based beverage that is able to remove radionuclides from the human body. The Scientific Development Council attached to his administration has approved the technologies, and production is also expected to start of acid- and alkali-resistant work overalls and a civilian gas mask, with facilities for imbibing water and liquid foods.

Over 1,000 personal medical kits have been allocated to the Kozloduy Nuclear Power Plant. Apart from containing the seven basic medicines needed in the event of a possible accident at the plant, they also have other advantages: long shelf life, compact size, and suitability for storage under normal conditions. An apparatus for solving operational-tactical tasks called "Uran-2" will soon be approved for introduction into the Civil Defense system. The apparatus is used to forecast and evaluate radiation and chemical accidents. It has already been tested in military conditions, and, after the addition of certain specific parts, can be used in Civil Defense at both the oblast and the national levels. A new antiaerosol respiratory cartridge is to be introduced for use in gas masks.

The "Signal" microprocessor system is also being introduced to evaluate the situation in the event of atmospheric pollution with toxic industrial gases. The system has proved its reliability at six Bulgarian enterprises. The plant in Byala Slatina will also produce protective clothing for rescue teams.

Civil Defense will consider supplying equipment for professional rescue teams, while local town administrations and the owners of potentially dangerous enterprises and companies will be able to buy the protective clothing, gas masks, and medical kits. Under the draft law on Civil Defense, the latter will have greater responsibilities toward the population and the natural environment.

**Roundup of Reports on State Setup, Talks**

LD1507224292

[Editorial Report] CSFR media on 15 July carries numerous reports on the discussions on the government set up and talks between the Czech and Slovak sides as discussed by the Czech National Council and deputies. The media also carries reports on the federal government session. The following is a roundup of these reports:

Prague Stanice Praha Radio Network in Czech at 133 GMT on 15 July carries a 1.5-minute report by reporters Kasparova and Stigler from the session of the Czech National Council. Stigler notes that the afternoon session began with a vote on the proposed statement whereby the Czech parliament's Presidium would set up an interim commission for negotiations with the Slovak parliament. He says: "Even though left-wing deputies tabled several amendments, the plenum eventually adopted the statement's original version. Some sources say that a session of the Czech parliament's Presidium is expected to begin today. It should discuss how the commission is going to be set up. You may recall that the commission will have proportional representation." Kasparova adds that no conclusions have been reached so far.

Prague Stanice Ceskoslovensko Radio Network in Czech at 1400 GMT on 15 July carries a two-minute report by Jiri Ruzicka from the Czech National Council session. Ruzicka says: "The Czech National Council proposes that its Presidium set up an interim commission for talks with the Slovak National Council on the state and constitutional set up. This has been agreed by the Czech assembly. Moreover, it appeals to the Slovak National Council to immediately open talks on the state and constitutional set up so that a draft solution will be adopted by 30 September this year at the latest. It proceeds from the principle that one of the characteristic features of a common state is that it is a subject to international law as one entity. Delaying the steps to clearly determine the stable shape for the future good coexistence of Czechs and Slovaks could impair this coexistence, says the resolution. The Czech National Council also calls on the Federal Assembly to discuss without delay the solution to Czechoslovakia's state and constitutional set up."

The same source at 1500 GMT adds that "the Czech National Council approved its recommendation to the government of the Czech Republic to immediately start discussions with the government of the Slovak Republic on the possibility of a land set up of the common state as one, undivided subject of international law based on civic principles and having at least three independent parts. That is the wording of the latest resolution by the Czech parliament proposed by Jiri Drapela of the Liberal Social Union. Some of the passages, for example one concerning being a subject of international law, were different from Drapela's proposal."

He adds: "These resolutions were mostly initiated by Miloslav Vyborny of the Christian Democratic Union from the Czechoslovak People's Party. After the vote, Deputy Drapela stated that by expressing its support, the assembly may have laid the foundations for the common state. The second session of the Czech National Council then closed."

In a 2.5-minute report, the same source at 1600 GMT reports on a session in Prague held by the federal government today. Reporter Barbora Tacheci notes the following from the news conference: "The federal government is convinced that it will be given the trust of the parliament tomorrow, Prime Minister Strasky said, judging from the reception he received during his presentation of the policy statement in the parliamentary committees. In regard to the objections of deputies that the statement speaks about a three-month horizon, Strasky said that this does not mean that the government intends to function for only three months. The time horizon is only a reaction to the time-limited agreement between the political delegations of the Movement for a Democratic Slovakia and the Civic Democratic Party."

Prime Minister Strasky is heard saying: "I can say this evening in advance what I will say tomorrow at the plenary session, that the decision to persist in a common state is not the outcome of any kind of economic calculations. From the point of view of the meaning and significance of the decision, I consider such calculations of secondary importance."

Tacheci adds that decisions were made on appointments and dismissals: "With effect from 2 July, the federal government revoked Kocarnik, Klak, and Jurecka from the posts of deputy federal ministers of finance and appointed Jurecka as first deputy federal minister of the economy."

Prague Stanice Praha Radio Network in Czech at 1630 GMT adds the following on the federal government's news conference: "Deputy Prime Minister Milan Cic commented on the Czech National Council resolution recommending that the republican governments discuss the possibility of setting up a land type of state." The report then carries

Cic, speaking in Slovak, says: "The Movement for a Democratic Slovakia as well as some other parties and movements are of the opinion that a land type of state is not acceptable for the present political leadership and that it would be possible to solve this issue within the framework of the Czech Republic as a federal republic in the future, should the Czech National Council or the people of the Czech Republic decide to do so by referendum, with the stipulation that it would be possible to expect further steps in relation to the Slovak Republic."

The same source, later in the newscast, reports on the Czech National Council decision as follows: "The resolution emerged as the result of the initiative of the government coalition parties. Nevertheless, there was not unanimity in their ranks during the adoption. For

instance, Jan Kalvoda, Civic Democratic Alliance deputy and Czech deputy prime minister, did not vote for its adoption."

Kalvoda is heard to state: "The government coalition, or rather its part, stated soon after the parliamentary elections that it will not allow the citizens of this state to be exposed to another Milovy [site of the talks between the Czech and Slovak parliamentary delegations during the last term]. This is another Milovy. That would not be such a serious objection but for me, as a member of a party which is a part of the present government coalition, it is more important that within two days two documents were adopted which contradict one another in their orientation and philosophy, and that both of them were initiated by the government coalition. The government policy statement adopted yesterday was based on the premise that the Slovak state leadership was elected legitimately on the basis of programs which mean the independence of the Slovak Republic. The government, bearing in mind the intentions of its executive tasks, not as a body which is to solve the state set up, had to take this fact into account. The government policy statement was adopted after, and in spite of, criticism. The resolution which requires the Czech National Council Presidium to establish this commission for state set up talks says that neither the program of the Slovak Republic nor the programs of political parties and movements which represent Slovakia politically today are taken very seriously by us and that, all in all, nothing has yet been concluded."

"Now I would like to welcome Deputy Jiri Payne of the Civic Democratic Party to our studio. It was he who presented the resolution on setting up an interim Czech parliamentary commission for talks with the Slovak parliament. I presume that you would like to respond to Mr. Kalvoda. You know, it really does look a little like a return to Milovy. There were also commissions which held talks there."

Payne says: "I think that these talks were announced long in advance. It was agreed upon and the president announced it internationally when he was at the summit in Finland. That means that it was not possible to withdraw from the talks, in my opinion. Another reason is that in the present situation it is necessary to avail ourselves of every opportunity to negotiate and it is necessary to create certain negotiating mechanisms in case of a deterioration of relations. I think that the tradition of negotiations is important and that it is necessary to continuously create mechanisms for talks."

The same source, later in the same newscast notes that Civic Movement Chairman Jiri Dienstbier criticizes the Czech Government for rejecting structural economic policy in its policy statement, "which lacks a well thought-out program for the stabilization and recovery of the economy." The report also notes that the Civic Movement further states that the whole policy statement is imbued with a lack of confidence in the further existence of the common state.

Prague Federal 1 Television Network in Czech at 1730 GMT on 15 July carries further statement by Czech Deputy Prime Minister Jan Kalvoda: "What is at issue now is the fact that this election represented a legitimate assertion of the basic political divergence of the two republics. Both constitutional representations of the two republics must somehow come to terms with it. The policy Mr. Meciar started to pursue recently, or say in the last few days, is nothing but some kind of obscuring issues, some kind of a delay game. In doing so he is naturally being very intensively assisted by the Czech left wing. It was quite obvious yesterday during the debate on the Czech Government statement. Almost all left-wing parties attacked the Czech Government as a government whose policy is to break up Czechoslovakia. I delivered a brief address on this topic and I am going to reiterate it. The fact remains that it is the Slovak political and constitutional representation which has presented this policy to its citizens and its voters. This is how it got elected and this is how it formulates its government statement. I do not understand this logic—although logic is probably absent in politics—the logic of how someone can publicly accuse the Czech Government coalition of harboring separatism, if that person compares the policies of the two governments."

The same source notes the Czech parliament's approval of the government statement. It then cites Bohuslav Geci, chief of the Press and Information Department of the Slovak Republic, who feels that talks on land state set up as one undivided subject to international law will not be successful.

Later in the same newscast, reporting on the federal government session, Prime Minister Jan Strasky and four of his deputies are reported to have met newsmen at a briefing after the end of today's session. Strasky says: "Another suggestion the committees voiced is the suggestion is that this government should carry out certain stock-taking of the present state of our state. The only thing I am able to say on this matter is that this is a task we do on everyday basis in our new posts, that we will naturally be issuing interim reports about it, starting with the evaluation of the drawing from the federal budget. If we are challenged in the Federal Assembly, we will be defending ourselves by saying that the period between the appointment of the government and between the drafting of the policy statement has not made drafting of this kind of a document possible."

He adds: "The third matter-of-fact suggestion voiced in the course of committees' session is a demand that the Federal Government should carry out a stock-taking of federation's assets. This task can be made in stages, because the assets of the federation are still quite sizeable. In the sphere of the economy, it is changing every day because of privatization. Doing stock-taking in other spheres will be difficult and it will be difficult to publish the results. At issue is the military sphere. The government will adopt one task, which will be that it will commence without delay to take stock-taking of the assets abroad, providing it is asked to do so."

**Ruml Views Czech Interior Ministry, Police, Intelligence**

*AU2307080592 Prague MLADA FRONTA DNES  
in Czech 17 Jul 92 p 6*

[Interview with Czech Interior Minister Jan Ruml by Sabina Slonkova; place and date not given: "I Am Not Satisfied With the Ministry Staff"]

[Text] [Slonkova] Federal Interior Minister Petr Cermak expressed his conviction recently that the Federal Ministry of the Interior [FMV] has undergone a rigorous personnel clean-up. At the same time, he claims that numerous former State Security agents and people, who had to leave the FMV or the Federal Security Information Service, are operating at the Czech Interior Ministry [CMV]. Can you reiterate the claim about the CMV made by your predecessor Tomas Sokol that the personnel situation at the ministry is adequate and matches that of any other institution?

[Ruml] I am just becoming acquainted with the personnel situation at the CMV, but I can say already that I am not satisfied. Since November 1989 no essential changes have taken place in either the organization or personnel. I intend to reorganize the ministry and simplify and clarify the structure. I believe that the ministry should be the central body of the state civilian administration, i.e. not policemen, but civilians would work here. They see police work—particularly its concept and control—in a different light than policemen do.

[Slonkova] Are you not running the risk of the civilians' not being able to orientate themselves at the ministry?

[Ruml] It depends on the work the ministry does. An interior ministry cannot direct police operations, it should deal with concepts of security policies, legislation, police economy, and control. It must not direct the police, and the law does not even allow this. The actual basis of the security policy should be considered from the civic and civilian point of view. For this, it is not necessary that policemen be employed by the interior ministry.

[Slonkova] There was criticism addressed at Tomas Sokol that the police in the form he advocated and organized is neither sufficiently controlled nor properly managed. Will you keep to the line set by Dr. Sokol or will you introduce radical changes?

[Ruml] I do not want to comment on the work of Minister Sokol. I do not think it is a proper thing to do. Nevertheless, there are two fundamental systemic considerations—whether to make the police independent [of the ministry] with its own technical support or have the ministry provide the Service support, and actually control it in a way. I favor the alternative chosen by Minister Sokol, i.e. turning the logistic support over to the police. Economic independence would be brought as far as the district level. That would mean legal economic autonomy even for the district police directorates. This

will require strong control bodies at the ministry particularly operating in the police economy. This will prevent the police from being a completely autonomous unit beyond control.

[Slonkova] In a recent MLADA FRONTA DNES interview, Tomas Sokol recommended that you begin to build a modern ministry emphasizing the analysis, control, and planning sections. Will you follow his advice?

[Ruml] I intend to. One of the deputy ministers is going to be in charge of the department for analysis and conceptual planning that will deal with the high-risk areas from the security point of view, and record individual phenomena of importance. That will also be a part of the documentation in forming the government security policy.

[Slonkova] Coordination and information are fundamental conditions for true excellency in police work. On Friday [17 July] the Slovak National Council may declare Slovak sovereignty. According to Frantisek Miklosko, chairman of the Christian Democratic Movement deputies' club in the Slovak National Council, relations will ensue within the framework of Czechoslovakia that escape any definition. The FMV might be abolished, and only the republic ministries would be maintained. How would that affect your ministry?

[Ruml] I have to perceive the declaration of Slovak sovereignty not only as a political declaration but also in its tangible implications. Thus far, security is indivisible. The FMV has federal jurisdiction. Such a declaration, however, may be a threat to its existence. Therefore, we must also ask whether the part of the federal ministry located on Czech territory is capable of carrying on with its work, and seriously consider the transfer of its operation to the CMV. These are legal, legislative, and technical measures that I do not believe to be too complex, especially as I am familiar with the FMV structure and know how to implement them. I do not want to run ahead of myself but we must be ready for this situation.

[Slonkova] Information frequently leaks from the Federal Security and Information Service [FIS] slighting the person of Vladimir Meciar. It began with the letters he is supposed to have sent to the former State Security officers asking them to report for duty beginning this July, continued with rumors that he offered the post of FIS director to V. Ciklamini, and ended with alleged reports that plans exist in Slovakia to form a separate secret service under Meciar's direct supervision. To what degree do you consider these reports reliable?

[Ruml] None of this has been confirmed. Of course, there are indications supporting these allegations, but they remain unconfirmed. The fact that everything is politicized represents a tremendous problem. That also applies to the work of the FIS. I am not criticizing this. It is a phenomenon characteristic of the current situation. Of course, it is not desirable for the FIS. Intelligence has its jurisdiction delimited in law, and as far as

possible its operation should be concealed, its reports submitted only to constitutional officials to whom they belong by law. These reports should not be published in the press because it could result in undesirable reactions. The future of FIS is also questionable. We know that it is a thorn in the flesh of Mr. Meciar, who will request that either his man be appointed FIS director or the service be transformed. We must consider all feasible alternatives, and we have prepared certain measures. I do not, however, want to talk about them at this time.

#### **Slovak Finance Minister Views Future Deficits**

92CH0756B Bratislava NARODNA OBRODA in Slovak  
26 Jun 92 pp 1, 14

[Interview with SR Finance Minister Julius Toth by Gabriel Beer; place and date not given: "We Are Not Entitled to a Balanced Budget"]

[Text] The position of finance minister in the new Slovak government will be extraordinarily critical. The state's purse is still very small. A definitive state setup still remains unresolved. The direction, which our two republics will take, will also have an impact on economic developments. The post of the top man in Slovak finances was given to Eng. Julius Toth, CSc., who as vice president of the VSZ Corporation was in charge of finances. Here are some of his views:

[Beer] It appears that this year's Slovak budget will again show a deficit. In your opinion, is it wise to maintain a balanced budget or is it better to have a deficit?

[Toth] Look, is there a government in the world that maintains a balanced budget? Almost every government borrows money in certain situations in order to cover those needs that are within the framework of the state budget. We know that the economy is going down, that there is an unemployment problem. It is therefore necessary to create job opportunities. We have no possibility of solving these problems with sources other than the state budget. It is possible that in the future we shall have a deficit budget, and that we shall have to borrow some money. We must develop activities connected with public works. Let people share in projects the public needs rather than collect unemployment benefits.

[Beer] But there should be a certain limit....

[Toth] Of course. The budget deficit must have a tolerable size. The state must not get itself into a situation where it is unable to pay its debts. In my opinion, part of the credit could be provided by supplier credits from firms which would want to participate in the development of the infrastructure. It makes a difference if I use government guarantees for development projects, for example to build a freeway, or if I give them to private firms for importing goods. The government guarantees alone of the republic in question increase confidence and the influx of money. I do not expect that we shall be able to obtain money for the deficit budget from our banks, they do not have it. Covering the deficit in the budget we

will have to be done in cooperation with other financial institutions in the world. With suppliers of large projects. Consortiums of banks will have to be formed. The projects will also have to be clear and perspicuous. And with a clear payback. We cannot borrow more than we can digest. For example, a freeway to Ukraine, which will guarantee quality transportation to eastern markets. It is a similar case with energy and communications.

[Beer] The Ministry of Finance will probably need to have two alternatives, because the question of the state setup has not yet been resolved and possibly to use according to what the results of the referendum will be.

[Toth] In the development strategy in the VSZ Corporation we had several alternatives. To develop a strategy with only one alternative is not possible even in developing a state. And there does not have to be an alternative only to use in case of a breakup, but also according to the efficiency of the economy. When we declare that each will live at its own expense, that already is an alternative.

Today, taxes go into the federal treasury and from there they are redistributed. When they will no longer be redistributed, they will go to Slovakia and from there contributions will be made to the federation. That is an important change. It will make clear what our earnings are, what financial means Slovakia has at its disposal for further development.

[Beer] Will not the economic management "each on their own expense" bring serious problems for Slovakia in the early years?

[Toth] There is danger in one as well as in the other. You think that in a common economy there is no danger? When you do not have a clearly defined income, it is centralized and you either do or do not take your percentage. Then everyone can make up things, as it was during the process of adopting the budget for this year, when the Czech economists announced how much money Slovakia is costing them, but no objective rules existed. When we get all the revenues from Slovakia in Slovakia, then we shall find out how much it actually is and what we can afford.

[Beer] The new tax system should already help make things clear....

[Toth] The basic structure of the tax system is in concord with the market economy. The only point is that the national government be given authority within the framework of the tax system. The budget will not be made centrally, but on the republic level.

[Beer] What is your opinion about the possibility of having different basic tax rates in the republics? Economic development in Slovakia is slower and it will need more stimulation precisely by certain tax reliefs.

[Toth] Last year I visited the United States and Canada. There are several taxes everywhere. The nation-wide rate is the same everywhere. But every local government can

choose its own taxes and set their amount. Only a portion of the taxes will be uniform for Slovakia and the Czech lands. But there could also be republican or regional taxes. A differentiated tax policy can attract capital.

[Beer] But so far that is not counted on....

[Toth] In changing the principles for creating the state budget, we shall also have to amend the tax law. If we proclaim Czecho-Slovakia to be one economic sphere, then the basic issues must be settled between both partners. Personally, I see no reason why we could not adopt the principles generally used in the FRG, Canada, or elsewhere.

[Beer] What is your view on the possible division of the republic? Some economists say that it could bring gain to Slovakia, others, the majority, that it will be a loss....

[Toth] It is difficult to look into a crystal ball and say whether Slovakia will be better or worse off after the breakup of the republic. A considerable portion of the processing industry is in the Czech lands, we have mostly primary production. We must determine basic criteria of what must be quickly built up in Slovakia, so that we, too, do not export semi-finished products like a developing country. In the first stage, while we are still exporting semi-finished products, we will have to agree on the share of the profit. I doubt that in that stage the Czech economy will be interested in buying such semi-finished products in the West for a substantially higher price.

[Beer] It is said that the breakup would cost us Kcs 14 billion. What to do then about a strained state budget?

[Toth] Why precisely 14 billion? I read the views of Czech economists that Slovakia perhaps will be worse off initially, but after three to four years the Czech lands will be worse off. When a person works for himself, it is a different matter. The creation of values depends on how people will work. I do not think that Slovakia is so badly off as far as obsolescence of production means is concerned. Many problems which ensued from the conversion were our own doing. It is, after all, nonsense to close down modern plants just because we will stop manufacturing certain types of weapons. Nobody besides us made such a gesture.

[Beer] What is your view on the unity of a Czecho-Slovak market?

[Toth] Europe is marching toward unity. With uniform custom duties, single currency. We have a single currency. If we come to a reasonable agreement, we could create a model by applying the Maastricht agreements within the framework of Czecho-Slovakia by gradually changing to the level of federal powers which is demanded by the Maastricht agreements of the European countries. We could try out for Europe its future model. And at the moment when Czecho-Slovakia would be accepted into the

united Europe the functions of the federal government would be taken over by the government of the European Community.

[Beer] That is fine, so far. But look at the different efficiency of the economies, single currency, and the effort to have two central banks.

[Toth] America has several central banks and it does not cause a currency problem there. Two central banks with a common bank council will have no problem agreeing on a common monetary policy. I am not convinced that the efficiency of the economies is so different that serious upheavals would necessarily occur. After all, when the Maastricht agreements are accepted and a new single European currency is created, will every state in the Community be as productive as Germany? And in spite of that they will have a single currency and a policy of issue formulated by national central banks. Every government must cooperate with some central financial institution. In Bratislava we have only the Czechoslovak Federal Bank, Slovak branch, which does not have a legal status.

[Beer] Klaus is reported to have pushed through in discussions with the Civic Democratic Party the continuation of his policy, more or less a restrictive one.

[Toth] The result of this restrictive policy is that there has been a considerable amount of insolvency in our enterprises. If we want to have a healthy economy, we must find a way to prevent secondary insolvencies. Otherwise we shall cause complicated situations even in enterprises that have good prospects for future development. A restrictive policy also must have limits so that money is not depreciated and inflation is kept within certain boundaries. And we cannot allow all enterprises to collapse in a chain reaction.

[Beer] And your recipe for relieving insolvencies?

[Toth] We discussed several proposals within the framework of the Industry Union. Debts can be cleared only by pouring some free financial resources into the economy. The question is, how to use them and where to get them? Whether to take out a loan, or settle part of the claims by issuing new shares, in the national assets, or issue bonds. There is no uniform view even among renowned economists. Economic theoreticians and practitioners in enterprises should propose two or three alternatives, which the Czech side might also adopt. There the problem is the same. For example, the 15-day payment announced by the VSZ is an exception. Today, money comes from domestic customers in 60-90 days, same as payments from abroad.

[Beer] There is much talk about dirty money and enormous tax losses...

[Toth] We must restructure the entire system of tax control. We also must include in the tax system certain elements which are customary in the West. If an entrepreneur has decent profits in one year and wants to invest them and create job opportunities, he is taxed

differently. Here, there may be some cheating so that the entrepreneur can invest in the future. I believe that restriction is not the only role of the government, the ministries, or the control agencies. It is necessary to have clear rules. If you have earned more this year, the state does not want to take it away from you and leave you with nothing for the next year, especially if you will create new job opportunities. If we find a mechanism to support the activities of such entrepreneurs, maybe we shall get more money from them in the future. It is a tried and true system. We do not need to think up anything new. The problem of dirty money we shall have to rectify. If only in respect to the EC. It cannot, after all, be allowed to flow uncontrolled into our economy.

[Beer] Commercial banks are very important for revitalizing the economy. Well, so far not much can be said for their quality....

[Toth] Even two years ago I thought it a mistake that we did not start with the banks within the framework of privatization. They are basically the last to be privatized. Until now, banks here were merely accounting centers without entrepreneurial activity. Money comes late, and there are problems with settling accounts. With the exception of the Czechoslovak Commercial Bank, they have weak links to a quick settlement of accounts abroad. The government, too, will have to make an effort to have Slovak banks, for example VUB, recognized by the international consortium of banks. Maybe then our banks will function better. That will also require retrained personnel, technology, and customer relations.

Everyone expects that the new government will perform miracles, that it has a new purse. After we have made an inventory, then we will need to say frankly what we can afford, what we cannot afford and will not be able to afford. I believe that if we realistically tell people what they can expect this year, what the next year, explain how the economy could be made to grow, they will understand. It is the duty of the government to tell people the facts, and the duty of the members of the government to do all they can to mitigate the situation, to improve Slovakia's position in the world.

**Commercial Disputes Said Harming Court System**  
92CH0757C Prague HOSPODARSKE NOVINY  
in Czech 18 Jun 92 pp 16-17

[Article by Vaclav Vopicka detailing roundtable discussion of commercial and judicial experts hosted by HOSPODARSKE NOVINY; place and date not given: "Is the Economy About To Drown in a Sea of Commercial Disputes?"]

[Text] *Tens of thousands of cases, a shortage of judges and administrative employees, a lack of space—such is the current status in the general courts overall and in particular regarding commercial courts. A proposal submitted these days might not perhaps come up for a whole year. What are the reasons for this situation and what should entrepreneurs do in order not to have to undergo*

*the difficult court proceedings to the maximum? That was the topic of our roundtable discussion involving several specialists from the legal profession. The following participated in the discussion: HOSPODARSKE NOVINY; Jana Kubistova, doctor of jurisprudence, chair of the Czech Republic Chamber of Commercial Lawyers; Zdenek Des, doctor of jurisprudence, chairman of the Kraj Commercial Court in Brno; Jaroslav Schneeweissova, doctor of jurisprudence, specialist lawyer, First Brno Engineering Plant, joint stock corporation, Brno; Jaroslav Hlavka, doctor of jurisprudence, member of a law and commercial office in Prague.*

[HOSPODARSKE NOVINY] Seen from a general standpoint, the current status of affairs is known, albeit it is better in some courts than in others. How are things, for example, at the Kraj Commercial Court in Brno and in the enterprise sphere? What is the most frequent object of the disputes and what are their causes?

[Des] In 1990, 8,700 suits were filed with the original Kraj State Arbitration Office in Brno; last year, there were 43,000 suits and this year, between 1 January and the end of May, in our court there were already more than 30,000 suits initiated. As can be seen, the number of disputes is growing geometrically. In the absolute majority of cases, the cause is insolvency of entrepreneurial entities. In other words, what is mostly involved is the recovery of monetary claims.

[Schneeweissova] In our joint stock corporation, we currently have virtually 3,000 open disputes. The predominant majority is actually caused by insolvency and we are generally dealing with undisputed matters. The parties admit that they should even pay late fees, but lack the funds to make payments. That is why we have recently been attempting to file as few suits as possible. We do not solve the payment of invoices through the courts to the extent to which this is possible and are attempting to solve obligations based on nonpayment through the form of compensation—by using mutual forms of crediting. We file suits only where late fees are involved because in this area the deadlines for filing such suits continue to be short.

[Hlavka] We essentially do not have any problems involving insolvency because suppliers have thus far been solvent. However, we have encountered something else. For example, approximately three suppliers for our client were purchased in small-scale privatization and were immediately liquidated. And this is where we found out that the liquidators had an absolutely inadequate knowledge of the law. They addressed letters to arbitration offices, pointing out that they were in liquidation, that they cannot fulfill their legal obligations, and asked the arbitrators to reject our applications for that reason. But as far as the commercial courts are concerned, our turn has virtually not come around since January. Since December, not a single commercial dispute has been initiated regarding our cases.

[HOSPODARSKE NOVINY] Is it possible that the low level of contracting and generally legal culture and specialty in the enterprise sphere can be currently considered to be a cause of the large quantity of disputes?

[Hlavka] For the time being, most of the partners are not parties to the dispute, because their differences will be solved by time alone. But problems occur the moment things stop functioning within a corporation for any kind of reason. There have already been such cases. These are matters involving millions of koruna values belonging to private individuals who deposited single-family houses and all of their property into an enterprise. This is then horrible to untangle.

[Des] I would like to add to the previous question that, in addition to disputes based on insolvency there are now and undoubtedly will be ever greater numbers of other disputes, for example, disputes among partners of commercial corporations, disputes arising from economic competition, disputes based on unfair competition, disputes involving indemnification for damages, disputes based on barter trades, etc. We have already received proposals to file several bankruptcy proceedings and we can undoubtedly expect to get more. I anticipate that in the fall there will be an increased number of proposals to initiate bankruptcy proceedings. On the one hand, it will begin to be seen whether the entrepreneurial entities which came into being on the basis of privatization are profitable or not profitable and there will be bankruptcies. Moreover, until 30 September 1992, it is possible to declare bankruptcy only as a result of the excessive indebtedness of the debtor; as of 1 October, it will be possible to declare bankruptcy even because the debtor is unable to make good on his obligations to a number of creditors—something which will undoubtedly show up in an increase of such proposals.

And as for the contractual or generally legal level? To the extent to which we have in mind the application of the Commercial Code or of the amended Commercial Code, we must find that disputes resulting from the application of the altered regulations are showing up before the courts with a certain time delay and that, consequently, we are reaching these findings on a delayed basis. It is, of course, undoubtedly true that the contractual level and the general level of legal knowledge and skill has an influence upon the quantity of disputes and upon their results.

[HOSPODARSKE NOVINY] To what extent does the entrepreneurial sphere have the opportunity in this regard of utilizing qualified legal services? Both involving actual legal units and also commercial lawyers and attorneys?

[Kubistova] In my opinion, the network of such specialists is adequate because some 1,700 attorneys and 1,700 to 1,800 commercial lawyers are functioning in the Czech Republic. Moreover, a lot of enterprises maintain their own lawyers and legal units. According to the experience of our chamber, both the level and the

information we have at our disposal from the legal profession naturally varies, as is the case in any kind of other profession. We are attempting to support an improvement in the level of legal services by tightening up the requirements for professional examinations. Nevertheless, some who are not completely qualified, either as commercial lawyers or as attorneys, naturally get through this sieve. It is only a question of time, demand, and supply. For the present, the situation is quite confused and it will take two or three years before the market will select the truly competent commercial lawyers and attorneys. Those who will lack in quality will have to orient themselves in a different direction. Of course, in Prague, where industry is concentrated, or in large cities, the network is naturally denser, but the provinces are also not bad off in this regard because each okres has its five to 10 attorneys and commercial lawyers so that the network is spread relatively evenly. Another question altogether is that commercial lawyers who have their activities limited in conjunction with entrepreneurial activities cannot make such a good living in some okreses. These are the regions which do not have so much industry, so many services, so many commercial corporations so that these services there are oriented more toward civil law, which is the primary domain of attorneys.

In view of the tremendous transformation of the Legal Code, which came about as a result of the Commercial Code, the amendment of the Civil Code, or as a result of the publication of the new small business law, etc., some attorneys and commercial lawyers do tend to lack in routine and orientation regarding the Legal Code. Courts of justice are also in short supply because there is a whole mass of newly introduced institutions. That is why we consult even with commercial courts and with specialists from abroad, for example, with respect to bankruptcy and settlement proceedings.

[HOSPODARSKE NOVINY] After interpreting and applying the law, however, there follows the hard reality. A participant in a dispute has a legal decision, his claim is recognized, the other side is required to settle. What is the situation with respect to the possibilities for realizing the implementation of decisions?

[Des] Previously, as long as the arbitration decision involved monetary settlement and the defendant had an account with a monetary institution, the decision was carried out by a write-off at the monetary institution where the plaintiff himself submitted an order requiring the monetary institution to siphon off the appropriate payment from the account of the defendant. Carrying out a decision involving a nonmonetary settlement was accomplished by the arbitration office by the imposition of disciplinary penalties. Now, the execution of a decision is governed by the Civil Code. In other words, it is possible to make use, for example, in the case of monetary settlement, of a paid claim order, the sale of real estate, or material chattels, etc. In the case of decisions requiring a different type of settlement according to the Civil Code, this may mean the imposition of fines,

eviction, etc. Of course, the execution of decisions is no longer a matter for the commercial courts or the kraj courts which decide on commercial matters and which have issued such decisions, but rather it is a matter for the okres courts.

[Schneeweissowa] In this respect, the situation is very gloomy. We still have a number of arbitration decisions which are actionable in accordance with the law on economic arbitration, the implementation of which by way of siphoning off payments from the accounts of the defendant organizations—in other words, by encashment—could not be realized for various reasons. Another problem lies in the fact that, in contrast to previous arrangements, when the execution of a decision was free, there are fees attached today to a proposal to implement a decision. With respect to insolvent enterprises, this decision implementation right now does not result in any profit, it is yet another expenditure of money, yet another factor making the dispute more expensive without any effect.

[Des] There is one other question. As we said before, the commercial courts are overburdened. But let us say that virtually half of all the disputes could be settled by a payment order. However, in implementing that decision, the situation will shift to the okres courts. Similar pressures therefore await even those courts because as long as our decisions are not fulfilled voluntarily all of these claims will have to be asserted before the okres courts within the framework of implementing the decisions.

[Hlavka] Here we speak of implementing decisions by garnisheeing the accounts of the defendant although all other methods of implementing a decision are far more complicated. For example, there is the possibility of satisfying a claim by selling off real estate or material chattels. Frankly stated, in 15 years of practice I have encountered a single case where an automobile was sold and this only happened because actually all participants in the case agreed to it. These opportunities do exist, but I am highly skeptical because, even for the courts, this kind of implementing agenda is quite demanding and labor-intensive.

[HOSPODARSKE NOVINY] How do the current changes in ownership relations show up in the decision-making agenda and, in general, in asserting claims against transformed as well as dying entities?

[Schneeweissowa] One of the causes which significantly prolongs the implementation of decisions and the duration of some court disputes in general is precisely the completely unclarified question of the transition of the rights and duties based on contractual obligations in cases where enterprises have become transformed or have ceased to exist. Even individual judges differ with respect to the legal qualification of the kind of organizational changes which have occurred in a specific case. We have a number of already aged cases filed against state enterprises which have been currently privatized. Now, we need to file other suits involving the threat that

the statute of limitations will expire. Thus far, legal practices are missing a commercial gazette [OBCHODNI VESTNIK] which would, among others, publish certain data from the Commercial Register so that we might learn of any changes among the entities and so that we would know to whom we must turn, with whom we must correspond. Currently, the courts are demanding that, in each dispute, an extract from the Commercial Register be submitted—something which means significant complication in practice—the need to have the original of the extract from the register for every case, sometimes for the plaintiff's side and sometimes for the side of the defendant. We were not prepared for that. I believe that a commercial gazette could play a positive role here. This has to do with bankruptcies and settlements. I am learning here that proposals for bankruptcy proceedings and for settlements have already been submitted. However, as long as the declaration of bankruptcy is not published, this is virtually meaningless for us.

[Des] It is a big problem. In actual fact, we must determine the transition of rights and obligations, particularly at the present time when the entrepreneurial entities are changing and during the course of the dispute as well. This is one of the reasons why court proceedings in some cases last such a long time. The participants in a dispute should communicate these facts to us and should document them. This should be particularly so in the interest of the plaintiff. For example, at the present time, when the first wave of privatization is occurring, a number of stock corporations have come into being and are assuming rights and obligations. In our court, a number of disputes have been initiated and we are having to ascertain the transition of rights and obligations. A proper plaintiff should have to react immediately to these changes and notify us of them and accompany his notification by the appropriate documents. This happens rarely. He might notify us of these facts, but does not document them with the appropriate documents. We are now going about it by inviting the anticipated legal successors according to the listing in HOSPODARSKE NOVINY to notify us who has become the legal successor of the appropriate entities and to submit to us the appropriate documents. This means that we need the decision of the founder, the notary entry regarding the establishment of a stock corporation, and the extract from the Commercial Register. Only then can we continue adjudicating the dispute. This is true even of cases in which the plaintiff himself undergoes change and fails to notify us accordingly.

[Hlavka] This is a problem which we discussed in the commercial collegium of the Supreme Court of the Czech Republic. The "Pozemni stavby" Enterprise in Prague was independent, the "Montovane stavby" Enterprise was independent; then they merged into the IPS and then the IPS fell apart. The Ministry of the Construction Industry issued an administrative decision—a directive—and stated that new independent

entities have come into being and that the rights and duties will be listed in the outlining protocol. This document does not exist to this day. In court, we objected: I filed suit against all entities, including the IPS. Please decide that no division exists, that the IPS does exist. The court understood that the solution did not lie in that direction and a highly complicated proceeding had to run its course.

[Schneeweisova] The situation is also complicated by the nonuniform practices of the individual judges, who were formerly arbitrators, when some of them actually feel that a transition of rights and duties occurred on the basis of the decision of the founder. But it is not always enough. In some cases, debts had to be assumed, they had to be ceded, which means that the debtor had to approve them. We were unable to obtain any outline protocols to look at from our partners who were somehow falling apart or merging.

[Des] It is up to the independent judge to decide whether rights and obligations have actually passed. As far as disputes from last year are concerned, the breakup of state enterprises led to errors on the part of the founders when they actually decided on breaking up a state enterprise into a number of entities. By law, they were supposed to make provisions covering all of the property, rights, and obligations, but they referred to the delimiting outline protocol, which was an incorrect procedure.

[Hlavka] I had a sharp exchange of views on this topic with the judges, my friends, who claimed that we are obligated to submit documents to them. I contended that they should apply the Civil Code; the other side is not giving me any documents. I am obligated only to identify them and you can then demand them. Prior to this time, the court had to ascertain everything on the basis of official duties; now the burden of proof has importantly been transferred to the plaintiff, but only to the extent that I must identify the evidence in question and the court must then acquire it on the basis of its official power.

[HOSPODARSKE NOVINY] However, many of these complications indicate that it is most advantageous to avoid a dispute. This purpose was served by the institution of a referee, to whom the participants in a contractual relationship agreed and whose position they took into account in event of a conflict and whose decisions were actionable through the institution of the arbitration office. Is something similar possible currently?

[Kubistova] Because the law on economic arbitration was rescinded, no opportunity exists to select a referee and to solve conflicts by this extrajudicial means. It is a pity. Now, after 1 January, there is the opportunity to solve a dispute by a referee only if the dispute is a foreign commercial one. However, this idea that commercial disputes should be solved by extrajudicial means, that they should be solved by referees, is not completely dead in the world. Let us look at Anglo-Saxon law. We had a great discussion with an American organization. These

were not only employees in the legal profession, but also two chairmen of the Senate of the federal Supreme Court and they informed us that under the Anglo-Saxon system three-fourths of the commercial disputes are solved through so-called arbitration, with the term arbiter having a meaning which is different from the meaning of our arbitration. It is a referee in the true sense of the word.

Business partners agree directly on a person as an arbiter, a referee, who is recorded in an official listing. Such an arbiter must fulfill the prerequisites of having high qualifications, must have an unblemished record, such people are scientists, teachers, outstanding legal practitioners, it is a great honor for them to be recorded in the listing of referees. Participants obligate themselves not to submit anything which develops as a conflict on the basis of their agreement to the state court of the appropriate state or to the federal courts, but that they will submit the matter to a referee; his decision is then actionable. The decision of the arbiter-referee is not subject to review and the parties promise to implement it voluntarily, despite the fact that it is actionable by the state. This could serve as a certain inspiration even for us.

[Schneeweisova] In "international" commercial disputes, the advantage enjoyed by referees lies in the fact that they are, generally, quicker and less expensive than the overwhelming majority of international courts. As far as I know, their decisions are generally implementable, even on the territory of other nations, something which is not customary with regard to the courts. Proceedings before foreign courts not only take a long time, but the actionability of their decisions is generally limited to the territory where such a decision was issued. In actual fact, it appears that we shall be missing the institution of proceedings before a referee.

[HOSPODARSKE NOVINY] However, the current legal arrangement is in force. Can you, therefore, please provide something like free legal counseling for our readers and state your views on how one should proceed under current conditions involving the activities of our courts in commercial disputes or possibly how to avoid them at all?

[Hlavka] It has been said that there are a large number of disputes in which both parties want to have a court decision. I believe that there is nothing to prevent them from submitting agreements to the courts with a proposal for the court to confirm them, that is to say, to obtain a court settlement. That is actionable. This is not a matter for referees.

[Des] In a situation with the majority of entities being insolvent, it is quite difficult to provide advice. The situation will be normal once an entrepreneur who has been sued a number of times loses credit—something which is valid throughout the world. If some kind of agreement is drawn up, it should be concluded on a

high-quality level, it should take into account all possible situations which could occur. To a greater extent, participants in law suits should utilize surety institutions in accordance with the Commercial Code; this means making use of the mortgage law, of guarantees, etc. They should devote more attention to possible informal conciliatory proceedings, they should make efforts to perhaps achieve recognition of their obligations. In some instances, it is more advantageous to conclude a compromise agreement than to acquire a judgment which might fully settle a claim and yet the judgment might not be issued for several years.

[Schneeweissová] I constantly favor filing as few court suits as possible, particularly in uncontested matters. I constantly think that there are a whole lot of institutions which could be used to solve such payments obligations, whether they involve mutual settlement or different types of compensation. This is the most rapid method of solving a collision even though ready cash is, of course, not the consequence of the settlement.

[HOSPODARSKE NOVINY] Here you are speaking of serious correct partners. But there are also others. Just today, there was a case in the newspaper reporting that an entrepreneur acquired goods from various locations and from several suppliers valued at 3.5 million korunas [Kcs]. It turned out that he has Kcs160 in his account. You certainly know what I am talking about.

[Kubistová] It is irresponsible for that firm not to ascertain whether its partner has the ability to pay. It is the fault of those people who make the deliveries.

[Schneeweissová] I would like to appeal to supplier entrepreneurial entities to be aware that today they and they alone bear the risk of doing business, the risk involved in selecting a customer and his ability to pay.

[Des] In concluding commercial relationships, entrepreneurs should verify the seriousness, the solvency of their trading partners, they should obtain references. The majority of the entities involved were accustomed to always somehow having things turn out, someone always provided a solution, someone always paid or wrote off the cost, the state did not permit any enterprise to fail.

A number of these entities do not even realize today that they are truly assuming entrepreneurial risks and that it can happen that, as a consequence of similar carelessness, they will go bankrupt. These entities believe that the courts must obtain the money from the debtor. The court only issues a judgment, but then the implementation of the decision must follow; but if there is nothing with which to pay..., I have already spoken about that. Or in the event of a bankruptcy proceeding, the enterprise goes bankrupt and it can happen that every creditor will be satisfied, for example, to the extent of 10 percent.

[Hlavka] We are talking about entrepreneurial entities. I would not call such cases entrepreneurial entities. After all, this is an example of a nonentrepreneurial entity from the previous system. Anyone who made such a

delivery did not care at all. That was no businessman who knows that if this contract is not paid he will lose his property. The owner of a gasoline filling pump would know that he could not afford his supper the next day—and he would act differently.

[Schneeweissová] It is not all that simple. Thousands of new entrepreneurial entities are coming into being. We are not overly accustomed to the fact that they could go bankrupt within one year. The question is where can a businessman obtain precise information regarding his trading partner today? Where is this information to be obtained throughout the world? Every solid firm issues its annual reports—even though we may call them something else. Essentially, these are advertising materials, where one can read everything about that company. You will find information on profits, on solvency. These fundamental data are not generally considered to be trade secrets. This is publicly available information which good marketing—in the event the entrepreneur is of some size—utilizes appropriately. If the businessman is smaller, he must help himself or make use of various chambers—something which is totally customary.

[Kubistová] The problem is precisely the nonexistence of functioning chambers. Each chamber guards its associated participants. Businessmen from individual chambers exchange so-called black lists among themselves. If this list contains the name of such a bankrupt or swindler, it is absolutely certain that businessmen will find out about him not only in that country in which he acted frivolously or even fraudulently. The chambers exchange such information on an international basis rapidly. A similar "businessman" then does not have a chance anywhere. This interchamber information on entrepreneurial entities is completely and expressly absent in our country.

[Des] Here, a number of people are too bashful to ask the appropriate trading partner: Tell me, what kind of trading partners have you had in the past, I shall go see them and ask them a few questions. In this country, this is considered to be indecent and tactless. Why? After all, it is absolutely customary throughout the world.

[Hlavka] Businessmen should also check on and differentiate between various types of commercial corporations with whom they are establishing contact from the standpoint of their property responsibility and liability. There is a substantial difference, for example, between a public commercial corporation and a corporation with limited liability.

[HOSPODARSKE NOVINY] Does not the present legal arrangement—in other words, primarily the regulations governing proceedings—exert an influence upon the presently high number of commercial disputes and the length of the proceedings?

[Des] As far as the number of disputes is concerned, that has not been caused by the legal arrangement. This is more a matter of the speed and the length of proceedings. In that case, the legal arrangement does have a certain

influence. During the current period, the courts are compelled to proceed in accordance with the Civil Code, the proceedings are more formal, and, thus, also more protracted, for example, in contrast to the previous arbitration proceedings.

In Europe, there is a tendency to simplify court proceedings. As far as I am informed, consideration is being given to recodifying the Civil Code even in our country. In my opinion, it will be necessary to specifically modify the commercial proceedings within the framework of the Civil Code. In commercial proceedings and in commercial relations, the time it takes to make decisions has a great influence. If a person has a claim against another—and this applies particularly to private businessmen, and if he must a long time, this signifies highly unfavorable consequences, which can lead as far as bankruptcy. Moreover, it can even cause a chain reaction.

In my opinion, the recodification could consider instituting contempt of court judgments (*kontumacni rozsudky*) in some cases and in cases in which the defendant has specifically acknowledged the claim of the plaintiff it might be possible to issue a judgment without the participation of the parties, etc. I further believe that it would be possible to expand the institution of payment orders, let us say, in much the same manner as is the case involving exchange payment orders, by not limiting the amounts governing the issuance of such orders in commercial matters—in other words, that it would be possible to issue a payment order for whatever amount. Of course, with the provision that if the defendant files a protest, the legal payment order is rescinded and normal proceedings are initiated.

[Kubistova] Some of the institutions which are suitable in civil proceedings are actually an outright retarding element and constitute a brake upon the rapid settlement of commercial disputes. One such institution, for example, is the complicated system of delivering documents involved in commercial cases where, only because of the delivery system, the solution of certain disputes is held up by two, three, or four months. Also, the institution of distraint is suitable for classical civil cases, but not for commercial disputes. If an enterprise or an entrepreneur must make provisions to exact his claim on the basis of a legal decision for another full year, this only makes commercial enterprise impossible. The number of those institutions where proceedings in commercial legal matters are subject to the classical civil code are legion and clearly someone will have to do something about it. The world is moving in a different direction, it is moving toward simplifying proceedings in commercial matters. In comparison to the previous relatively simple arbitration proceedings, we have taken a step backward. We have paid far too much attention to the arrangements of the first republic and to the classic civil highly cause-oriented, highly detailed, but at the same time very slow arrangement.

[Hlavka] The way things have come out is that participants in proceedings must at present become reconciled

with things the way they are. But what if we were to look at things by also seeing how much we as parties to disputes actually pay in court fees? I am asking for a service and this service is not free. Fundamentally, the court is designated to perform that service and is obligated to provide and to guarantee legal protection.

[Kubistova] Except that the situation is such that difficulties are not threatening, but rather that the commercial judiciary is already in serious trouble. This is primarily so from the standpoint of material prerequisites. Here, the state must help out because a functioning commercial judiciary is also in the state's interest, in the interest of a functioning market. Meanwhile, however, the present situation is already threatening the course of the reform. If the commercial courts will not make decisions with sufficient speed and get a head start and if they will not be solving property and other vitally important relationships among entrepreneurial entities with sufficient rapidity, it can happen that, by fall, one-half of not only medium-size enterprises, but larger enterprises will be filing for bankruptcy. And this can very substantially influence the course of the economic reform in a negative way.

[Des] Of course, this means forming a strong judiciary and, within its framework, a flexible commercial judiciary. The present situation, however, is somewhat different. We are dealing with an initiated trial, of course. But for our judges, this is a stress situation because they are aware of the consequences, but are not capable of solving them.

[Box, p 17]

#### Situation Report From the Kraj Commercial Court in Prague

##### Disputes

As of 1 January 1992, 33,103 cases taken over from arbitration, including 13,440 adjudicated by 30 April 1992; cases pending, 19,655.

Between 1 January 1992 and 30 April 1992, additional new cases: 33,474, including 6,255 adjudicated and 27,219 pending.

By 30 April 1992, a total of 19,695 cases were settled; 46,874 disputes are pending settlement.

Some 56 employees of the specialized apparatus (43 judges and 13 secretaries) have had to handle a monthly work load, as of 1 January 1992, of 148 cases each.

##### Employees

Judges: There are actually 43 judges with 17 unfilled positions.

Other employees: There are actually 57 employees and 59 additional unstaffed positions (recorders, etc.).

### Space

There is a total need for 97 rooms, including conference rooms (not counting the housekeeping sector).

Current status: The office on Zborovska ulice has 16 rooms, the office at 14 October Place has 31 rooms, the office on Francouzskaa ulice has five rooms. There is a total of 52 rooms. There is a shortage of 45 rooms.

Prospects are as follows: The court is scheduled to move from 14 October Place to Francouzskaa ulice where it will have a total of 54 rooms at its disposal following remodeling work. There will still be a shortage of 27 rooms.

### Balance

The Kraj Commercial Court in Prague is short 76 employees and 27 rooms.

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In front of the office of the chairman of the Kraj Commercial Court in Prague, we encountered the legal representative of a certain firm from Zilina. He had with him several briefs and was urgently asking the chairman to have the court handle his cases on an accelerated basis. He is suing his debtors because the firm has high obligations abroad and has no resources with which to satisfy these obligations, despite the fact that the firm is prospering and does not have any debt. It is becoming insolvent as a result of this situation and is losing credit with its foreign trading partner. The chairman recommended to the attorney, on an emergency basis, to see if he could not agree with his defendants to go before another less heavily burdened commercial or kraj court, as the regulations make possible. He was not able to promise the priority handling of his cases....

### Deputy HZDS Chairman Privatization Idea Viewed

92CH0756D Prague HOSPODARSKE NOVINY  
in Slovak 19 Jun 92 p 9

[Article by Augustin Marian Huska, former SR Minister for Privatization, and comment by Jan Oravec: "Talons Instead of Coupons"]

[Text] The original proposal for the concept of Slovak privatization assumed the use of talons instead of coupons (to differentiate) and contained a suggestion to turn over 20-30 percent of state property to the adult citizens as shareholders.

The prerequisite for that is an issue of talons in the nominal (not verified by the market) value of 70,000 to 100,000 Czechoslovak korunas [Kcs].

### Debt of State Enterprises

It would have been much more prudent if from the huge mountain of debt of the state enterprises, created by the decisions of the central plan, an Administration of the State Debt had been established, which would then have

"frozen" the entire debt to a low registration interest, and then gradually liquidated the debt by using the surpluses of future state budgets. Another, possibly more acceptable method, would be a process in which the Slovak Republic would take over the uncollectable enterprise debts and "deposit" them as its capital investment in the enterprises that were thus cleared of debt. This method will have to be thought through and quickly implemented, so that the enterprises can be quickly freed from the millstone of the unpayable debts. This method would obviously, by transferring the debts to state ownership participation, "water down" the nominal value of the original capital of the enterprises, but it would allow taking the debt-free enterprises to the stock exchange and thus quickly ascertaining their true market value. That would make it possible, besides the so-called direct sale of the enterprises, to trade their shares on the stock exchange (by means of floating the shares on the stock market). Although the now debt-free enterprises or state joint stock companies would, because of the additional share of the state in the amount of the debt, decrease in market value to some extent, in the great majority of cases they would quickly valorize the so-called comparative advantages (good, relatively cheap, skilled work force, location rent, acquired sector of the market, etc.). This way, the "watering down" of the nominal value would mostly lead to a greater market valorization of the capital than the "transferred debts."

### Property Talons

Let's now compare what nominal value the "holders of investment coupons" are getting as compared to the original promise of about Kcs70,000 to Kcs100,000. The ministries of finances are now estimating them at about Kcs27,000 per one holder of investment coupons. The whole complicated roulette method thus ended in a one-third result. At the same time, in order to "speed up" the privatization, an absurd principle was adopted to transform enterprises to joint stock companies without restructuring, which multiplies the number of possible bankruptcies and causes a decline of the market value of the shares.

A decision will probably have to be made to end the coupon privatization in Slovakia after the first round. It will be then necessary to assign out of the state property of the Slovak Republic nominal enterprise capital in the amount of about 70,000 to each adult citizen of the Slovak Republic (Kcs70,000 of the nominal value times the number of the adult inhabitants of the Slovak Republic). This amount of property will be assigned from the state property at a nominal value, to be turned over to the citizens by means of the so-called property talons. h3 Portfolio Service

There now comes the question who should buy and have the custody of the appropriate number of nominal shares (stock) acquired for the individually registered property talons. It should be, after the experience with the privatization funds degenerating into speculation, a state organization which is sufficiently spread out across the

entire SR territory and works with securities. It could be the Slovak Post Office, which has a branch in almost every community. A special organization which would manage the shares of each adult citizen (the so-called portfolio) for a fee (percent of the nominal value of the stocks entrusted to it) could be established in conjunction with the Slovak Post Office. The mentioned associated organization would therefore be established under the name "Portfolio Service of the Slovak Post Office" (PSSP), which would buy for the entrusted stock the appropriate number of shares on the order of the citizen and set up a deposit portfolio account for each citizen. The selection of the shares would be made by the Portfolio Service, and in order to minimize the risk, shares of at least three joint stock companies would be bought. Portfolio Service would charge a service fee as a percent of the volume of the nominal value (out of Kcs70,000). The Portfolio Service of the Slovak Post Office would cooperate with the accounting centers of the Slovak Statistical Office.

Gradually, the Portfolio Service would inform the owner of the portfolio once a year whether the market value of the shares is moving on the stock exchange above or below the nominal value (i.e., under par, at par, or above par) and whether they are beginning to bring in a share of the profits (dividend). Portfolio Service would be obliged to maintain the portfolio account of each citizen for the first three years, and then make it possible for each citizen to decide whether to keep the portfolio of shares or do something else with them (for example, turn them over to a domestic or foreign interested party). Portfolio Service of the Slovak Post Office would remain even after the three years a permanent investment service to citizens in the area of securities, even securities that the citizen obtains by other means (for example, by purchasing state bond issues). Citizens, holders of the portfolio, could have an order of disposal to sell their shares (or part of them) and possibly use them to buy other shares on the stock exchange according to the market price of the shares. That way an SR citizen could familiarize himself through the investment and brokerage services of the Portfolio Service with the mechanism of managing the capital invested in the securities.

#### Coupons and Talons

A SR citizen would therefore be entitled to the value of coupon privatization (about Kcs27,000) and the value of talon privatization (about Kcs70,000). The talons would be nominative and shares obtained for them would be registered, with a three-year freeze on the sale of shares obtained for the talons, which would later enable the citizen to change the structure of his portfolio. This way it would be possible to guarantee the organization of the investment service for securities, as well as protect citizens from possible manipulations during the initial 3 years. Citizens who own identical portfolios could organize themselves into associations of shareholders, which could represent their interest at general meetings of shareholders. In state joint stock companies the share of

talon privatizations should not exceed a 30-40 percent share of the enterprise capital.

This article indicates which proposals are being discussed by the experts who are preparing the amendment of laws on the great privatization by means of the coupon (talon) privatization. The key point of these deliberations is not a departure from the capital market, on the contrary, it is the creation on a mass scale of a Slovak capital market for all citizens, the removal of speculative distortions, and the creation of a special brokerage and investment service (Portfolio Service) for every SR citizen. It is more perspicuous, more honest, more professional, and more Slovak than the approach according to the unitary reform.

It is learning from mistakes. It is a goal-oriented defense of the economic interests of the Slovak Republic. It is a road leading not backward but forward, which does not preclude in the future (after 3 years) the internationalization of shareholders from the talon privatization.

The current IPF would be converted after a consolidating rationalization into general investment funds.

#### Commentary by Jan Oravec: "Concept of Talon Privatization Would Not Lead to the Market"

##### End of coupon Privatization in Slovakia?

The former Minister for Privatization, A.M. Huska, has lately been predicting the end of the coupon privatization in Slovakia ("A decision will probably have to be made to end the coupon privatization in Slovakia after the first round.") and he offers his ideas about substituting it with the so-called "talon" privatization.

The name of this method of privatization shows an effort to be different at all costs at least by substituting one term for another, the meaning of which, however, is identical. "Talon" privatization is supposed to be more perspicuous, more honest, more professional, and more Slovak. "What must be clear to even the least discerning person is that stopping the coupon privatization in Slovakia would mean an immediate separation of both economies and the breakup of the state. From this point of view, the mentioned proposal looks like an indirect method of achieving the independence of Slovakia.

The proposed concept of privatization depends by and large unequivocally on the dominant role of the state in this process. If this idea were to be realized, a paradox would see the light of day: the property inefficiently managed by the state would be entirely denationalized again by the state. Ideas of this kind thus want to again smuggle into Slovakia an absurd system with an unlimited power of the state official (Administration of State Debt, state joint stock companies).

Such a method of privatization would not mean finding real owners who would really exercise their ownership rights in relation to the former state property, who would improve it, buy, and sell it. On the contrary, the "talon"

privatization, with its simulation of the mentioned operations by a single powerful state organization, would alienate citizens from the property. All operations, beginning with the exchange of the talons for shares, continuing with the management of the shares, and up to their sale or purchase, would be carried out by the mentioned Portfolio Service of the Slovak Post Office. There would be only one result to this process: people would have no worries and the Slovak economy would have no capital market, or at least only its imitation.

The "talon" privatization would therefore not result in the creation of a Slovak capital market, as its spiritual fathers mistakenly believe. The proposed 3-year freeze on the sale of shares would mean a practical liquidation of this market even before it is created.

Let's look at other questions which present themselves in connection with the "new" concept. If 30 to 40 percent of the state joint stock companies were to be privatized by the "talon" privatization (which actually means—as I explained above—left in state management only in a different form), in whose ownership would be the remaining 60 to 70 percent?

How can it be possible to create a strong private sector this way? How can it be asserted that the promised part of the state property to be distributed among individuals declined to one-third as a result of the "complicated roulette method," when it happened quite obviously precisely because of the enormous interest of citizens in the coupon privatization?

The answer is actually easy to fathom. It is obvious that the concept of the "talon" privatization was inspired by the chimera based on the conviction that there is someone (state bureaucracy) who is able to collect all relevant information, process them, make the best decisions, support, discern, direct, regulate, and organize, that it is possible to tamper with impunity with the delicate web of socioeconomic relations of a society.

[Box, p 9]

Only fragmentary information on the talon privatization, worked out by the Deputy Chairman of the Movement for a Democratic Slovakia [HZDS] and former Slovak Government Deputy Minister for Privatization, A.M. Huska, made its way to the Czech Republic. We are therefore publishing here the entire text of an article which was originally published in the daily PRACA. In it, A.M. Huska explains his views in detail. At the same time we are including the opposing commentary of the Bratislava philosopher J. Oravec, who sees in the use of the talon privatization, a little too dramatically, we think, an indirect method of separating the economies and making Slovakia independent.]

Using the supremacy of the federal power, V. Klaus pushed through a unitary plan, and although he took from our proposal the idea of the so-called privatization

trusts (the current IPF), he did not adopt their unequivocal internal capital formation to protect the population—owners of the coupons. Neither did he adopt our idea of nominally set prices of the coupons, and instead accepted the theory of the unclear, multiple-round acquiring of the so-called market value of the coupons. It is a camouflaging of the fact that the foundation capital of state enterprises and the state joint stock companies refashioned from them without restructuring always has only a nominal value. These values, established by statistics and accounting, often are, even only after the deduction of the unamortized debt of the enterprise, very far removed from the market value, and in the downward direction in the absolute majority of cases at that.

**Majority Slovaks Said Investing in Czech Privatization**

92CH0756C Bratislava TELEGRAF in Slovak  
26 Jun 92 p 1

[Interview with Jaroslav Jurecko, Deputy Federal Finance Minister, by Lukas Havlas; place and date not given: "Let's Not Underestimate the Citizens"]

[Text] *The highly anticipated first round of the coupon privatization is behind us, and an intensive evaluation of it is currently under way. Although the final, complete results are not yet available, we asked the Deputy Federal Finance Minister, Eng. Jaroslav Jurecko, to give us some information.*

[Havlas] Can you give us the first preliminary results concerning the orders for shares and determine their value?

[Jurecko] At this time we know that of the total amount of 8.5 billion investment points the Investment Privatization Funds (IPF) had at their disposal 6.1 billion points and the holders of investment points (DIK) had 2.4 billion points. In the first round of privatization 450 IPF took part. Citizens submitted altogether 2.89 million coupons in the first round and used them to place 7.5 million orders. That makes it obvious that citizens divided their orders on the average among two or three joint stock companies. Thus far, fewer than 300,000 DIK's have not yet joined the coupon privatization and are still waiting. Thus it proved wrong to underestimate our citizens, because the majority of them exhibited maturity and the ability to speculate, which shows an understanding of the substance of privatization.

In the first round of privatization, orders were placed for all 1,491 registered joint stock companies. Altogether 92 percent of the investment points available for the coupon privatization were invested. Almost 79 percent of shares were ordered for those points. The difference represents approximately 95 percent of the points which they have available. The DIK's used 84 percent of their points. Of the orders placed, about 38 percent were filled, while of the IPF orders almost 40 percent were filled and 32 percent of the DIK's orders. This means

that in the first round 29.87 percent of available shares were sold. The IPF received 37.96 percent and the DIK's 26.94 percent of these shares.

[Havlas] Was there an excess of demand over availability?

[Jurecko] Excess demand, that is, interest in more shares than were available, occurred in 467 joint stock companies. On the basis of Section 24, paragraphs 3 and 4 of the government ruling No. 383, the IPF orders were cut back in 48 joint stock companies, so that this measure balanced out the demand and availability, and consequently all shares were sold of those companies all of whose shares will be transferred to the second round at a different rate of exchange. This result is, to my mind, very good, because in this round an entire third of the shares was sold, and there is therefore a good outlook for the whole process to continue successfully.

As a matter of interest I can state that the highest excess demand reached represented a 145-multiple, and was achieved by the hotel Palace in Marianske Lazne. Another large, this time a 45-multiple excess, was registered in an insurance company in Bratislava.

[Havlas] Is it possible to characterize at this time the investment plans of our citizens in the other republic?

[Jurecko] We really do not have this kind of information yet. But I can say that in evaluating the first round we happened to find that the more important investment funds registered in Slovakia showed greater investment activity in the Czech joint stock companies. Approximately half of their points were used in the Czech lands. But this is only an indication, not an evaluation of IPF and DIK as a whole.

### Privatization Statistics Examined

92CH0769D Prague EKONOM in Czech  
No 26, 2 Jul 92 pp 16-17

[Article by Eng. Eva Klvacova: "Privatization Under the Magnifying Glass"]

[Text] *The approval process involved in the first wave of large-scale privatization has passed through the first more important segment, based on the overall scope of the property involved. At the moment, the last privatization project calling for the establishment of a joint stock corporation which was totally or partially destined for coupon privatization was approved, some 5,830 projects out of a total number of 11,555 were judged. For purposes of the second phase, which will already be based on standard methods of privatization, some 5,725 projects remain to be judged. The leftover projects must be judged at the latest by 16 August 1992. Thereafter, projects for the second wave of privatization will begin being approved. The time between the two approval processes is a suitable moment for the first balancing and evaluation of statistical data.*

### Privatization Methods

Tables 1 and 2 provide a fundamental overview of hitherto applied methods of privatization. They clearly indicate that the largest extent was recorded by type D and type E transformations combined, that is to say, privatization as a result of newly developed stock corporations (on the basis of an approved privatized project) or privatization of already existing corporations. Of the overall number of approved transformation actions, 2,210 involved privatization of new stock corporations and property participation by the state is represented by virtually one-half: 1,007 cases. The second most extensive method of privatization involved the cost-free transfer of property to towns and communities or to other economic entities, which showed up in approved privatization projects 592 times and, thus, represents virtually 27 percent of all approved transformations. The direct sale of property to previously chosen owners was approved in 336 cases and accounted for 15 percent of the transformation methods, approximately. Public auction and public competition combined did not approach the overall scope of direct sales to previously identified owners. On average, a combination of two privatization methods was applied to each privatization project.

**Table 1. Transformation Methods in the Process of Large-Scale Privatization (involving 1,044 approved privatization projects)**

Method of Transformation	Number	Percent
A—Public auction	172	7.8
B—Public competition	103	4.7
C—Direct sale to previously identified owners	336	15.2
D—Stock corporation	839	38.0
E—Privatization of property participation of state in undertakings operated by other legal entities	168	7.6
F—Cost-free transfer	592	26.8
Total	2,210	100.0

Table 2. Structure of Transformation Methods D and E

Item	Basic Capital (in billions of Kcs)	Percent
Coupons	200.8	62.1
Cost-free transfer	38.1	11.8
Direct sale to previously approved owner	9.0	2.8
Broker (bank, stock exchange)	4.8	1.5
Fund of National Property—permanent, temporary	56.	17.5
Supplemental purchase of property by recipients of restitution	1.0	0.3
Other (not broken down)	13.0	4.0
Total	323.2	100.0

The first phase of approving privatization projects was oriented primarily at establishing an adequate supply of property for coupon privatization. Property approved for coupon privatization, which is valued at the well-known sum of 200.8 billion korunas [Kcs], accounted for approximately 62 percent of the basic capital of 943 already existing stock corporations or of newly established stock corporations, which were approved on the basis of privatization projects, in the Czech Republic, the overall value of which is set at Kcs323 billion. The share of coupon privatization in the total property of stock corporations privatized completely or partially through the use of coupons (Kcs362 billion) amounts to 55 percent.

The coupon method of privatization was applied as the sole method of privatization in 375 stock corporations with total property valued at Kcs53 billion. In the case of 459 stock corporations, the percent of coupon privatization ranged between 50 and 97 percent, with the property of these corporations representing Kcs135 billion; in the case of 183 stock corporations, it ranged between 20 and 50 percent (property valued at Kcs129 billion); and with respect to six corporations the extent to which coupons were used does not approach 20 percent.

In the case of the largest of the participating ministries, that is to say, the Ministry of Industry of the Czech Republic, the percent representation of coupon privatization is similar: 159 stock corporations of the total number of 435 will be privatized fully by the coupon method (97 percent coupons plus 3 percent restitution investment fund); with respect to virtually one-half of the stock corporations (219) the share of coupon privatization will range between 50 and 97 percent; in 55 corporations within the range of 20 to 50 percent; and only three corporations are below the 20-percent margin.

What kind of standard methods are used to augment coupon privatization? Temporarily or permanently, the Fund of National Property of the Czech Republic will retain 17.5 percent of the basic capital of the privatized stock corporations, that is to say, Kcs56.5 billion in accounting value. Some Kcs38 billion in basic capital will be transferred to towns and communities, to funds for hospital and social insurance, or to other entities, free of charge. Frequently debated and much in evidence in the pages of the daily press, the direct sale to previously determined owners will

augment coupon privatization by almost 3 percent (more precisely, 2.8 percent) of the property and will, thus, involve approximately Kcs10 billion (9 billion of basic capital). One-tenth of this sum, property valued at Kcs1 billion, will be bought up by recipients of property which will be returned to them by law. Property which will be sold to previously determined foreign owners is valued at around Kcs1 billion.

The second most extensive form of privatization of stock corporations and state property participation enterprises is, in other words, privatization by transferring a portion of the securities to the Fund of National Property until such times as a suitable successor owner is found or on a permanent basis. The third form of privatization, depending on the scope of the property, is the cost-free transfer to municipalities and funds. A specific private owner, in the true sense of the word, has thus far been obtained in direct sales by a relatively small portion of the privatized property involved. For the time being, therefore, the sale of property to enterprise management and to domestic entrepreneurs, which is sharply monitored by the public, and the still more sharply monitored sale to foreign entrepreneurs amounts to a negligible fraction of Czechoslovak privatization.

Employee shares played a small role in the submitted and approved privatization projects thus far. In the case of 722 stock corporations out of a total 943 (in other words, virtually 77 percent), employee shares do not appear at all; in the case of 124 stock corporations, their share amounts to less than 5 percent; in 67 corporations, employee shares amount to more than 5 percent, but less than 10 percent; and in 16 corporations, they amount to an even 10 percent; in the case of 14 corporations, the 10-percent limit is exceeded.

An interesting view of the approved or submitted privatization projects is offered by the representation of the individual processing groups. Of the total number of 1,044 approved privatization projects (including twice the number of privatized units, that is to say, 2,210), enterprise management is sharing in virtually 82 percent, whereas the management of the subordinate unit is sharing only to the extent of 5.7 percent and those interested in purchasing the unit who are not connected with enterprise management, amount to 7.4 percent.

Table 3. Structure of Submitted and Approved Privatization Projects by Processor

Processor	Share of Total Number of Submitted (11,166) Projects (in %)	Share in Overall Number of Approved (1,044) Projects (in %)
Management of enterprise	25.1	81.8
Management of subordinate unit	3.7	5.7
Those interested in purchasing	39.1	7.4
Restitution recipients	3.6	0.9
Founding ministry	0.2	0.2
Consultation firm	3.0	1.9
Okres privatization commission	6.8	0.6
Founder—okres office	3.9	0.2
Trade union organizations	0.2	0.1
Other submitters <sup>1</sup>	13.0	1.7
Unidentified processors	1.4	0.4

1) This is a very heterogeneous group in which private individuals, renters, enterprise employees, liquidators, landowners, and others are represented.

It is clear that enterprise management continues to share to a substantially greater extent in the overall number of approved privatization projects than in the total number of projects submitted. This fact is the consequence of a number of factors. In the first place, there is undoubtedly the fact that projects which were relevant for coupon privatization were selected first—and these projects had to do primarily with large enterprises and, as a rule, they were submitted by enterprise management. Privatization projects of small enterprises, which are primarily the object of the interest by competitors, are currently waiting to be approved.

It can be anticipated that the percentage share of competing projects in the overall number of approved projects will be substantially higher in the second half of the projects being judged. At the same time, it is possible to anticipate that the majority of the approved privatization projects will be based on the methods of direct sale without the brokering role played by the creation of new stock corporations and that public auction will therefore turn out to be the most numerous privatization method, as will public competition, internal selection proceedings, and direct sales to previously identified owners.

### World Federation of Hungarians' Internal Tensions

92CH0730B Novi Sad MAGYAR SZO in Hungarian  
18 Jun 92 p 3

[Interview with Dr. Elod Kincses, first secretary of the World Federation of Hungarians, by Marton Matuska; place and date not given: "Two Great Absentees: the Democratic Union of Hungarians in Romania and the Democratic Association of Hungarians in Vojvodina"]

[Text] *The next conference of the World Federation of Hungarians [MVSZ] will be held in Budapest between 19 and 21 August. This will be the second time for this organization with its promising name, in spite of discrediting itself earlier, to hold a conference with the goal of really serving the interests of the Hungarians in the world. Important changes were made to this end at the meeting in December, and the new course, to be determined on the basis of the changes which have occurred in Hungary, in the surrounding countries and the world, will have to be finalized at the approaching conference. In December the leadership was renewed; the writer Sandor Csoori became president, and Elod Kincses, a lawyer from Marosvasarhely [Tirgu Mures] who resides in Hungary at the moment, became the first secretary. We asked the latter to inform the readers of MAGYAR SZO of the details.*

[Matuska] The World Federation of Hungarians has to represent the Hungarians of the entire world, that is to say, Hungarians living in other countries, in exile, as well as in the mother country. At the moment, the situation is such that many groupings are missing from the organization. What are the prospects for this separation or dissent to be removed and for the World Federation to really become the organization of all Hungarians?

[Kincses] I formulated a concept of what the World Federation ought to look like, which I described on 5 June at a Paris conference of a few Western European organizations. I offer this concept for publication to the editors of MAGYAR SZO as well, so that everyone who is interested in the fate of the World Federation of Hungarians, and of the Hungarians of the world, will be able to consider it. By now, the World Federation of Hungarians has member organizations on every continent, so that it is really beginning to become a world federation. In spite of this, there are organizations which believe that the renewal is not yet convincing, and they are waiting for the results of the August delegate assembly, and the constitution which it will accept, before they declare their position. I think the question is formulated in a pessimistic way, because, as far as the Western emigres are concerned, very important groups are not absent. In my opinion, there are two great absentees, the Democratic Union of Hungarians in Romania [RMDSZ-in Romanian UDMR] and the Democratic Association of Hungarians in Vojvodina [VMDK]. They are absent for different reasons. The absence of the RMDSZ is more difficult to explain, since the decision to join the World Federation was already

made at the Nagyvarad [Oradea] conference in the spring of 1990. Applying this decision to real life, to borrow an expression from the one-party state, is still in process. I hope very much that these two important organizations, representing the interests of Hungarians, will take part in the August delegate assembly as fully entitled members of the World Federation. I consider this all the more important because I don't think the Hungarians in Vojvodina were less irritated than we were in Transylvania by the fact that for the World Federation of the Kadar era, only the Western emigres were Hungarians of note, and that it did its best to ignore our existence. In my opinion, now that the World Federation intends to become decidedly the world federation of minority Hungarians as well, this historical chance must not be passed up.

### Falsely Taught History

[Matuska] After the Second World War, not only minority Hungarians beyond the borders, but also Hungarians in the homeland were thrust, in my estimation, into a kind of spiritual paralysis, in that they were taught false history. For instance, it was hammered into us that we are a lowly nation. We were told, to mention only one thing, that we were Hitler's last allies. Living as a minority, one cannot interpret this in any other way than that they crippled us. Can the World Federation do something to stop the gaps in our knowledge of history in order to be able to learn true history at home and abroad as well?

[Kincses] By all means, a strengthened World Federation, as we hope it will become after the August delegate assembly, will need to address Hungarian youth as well, and there are plans to organize vacations for Hungarian minority youths here in Hungary and maybe even in areas populated by minorities, where they would play sports, learn Hungarian history, geography, and world history, but real, true history and not the romantic tales, and anti-Hungarian tales, which were fed to several generations in the successor states.

### Remembering the Victims in a Civilized Way

[Matuska] Our spiritual paralysis began with the massacre of many people in large areas, for instance in our region. Now they are beginning to disclose the lists of the victims' names. Did anyone think of the possibility that we Hungarians could assemble a list of the innocent victims, just as the Jews did after the Second World War when they assembled the most complete possible list of their martyrs, and that we would then pronounce their names, include them somewhere among the martyrs, so that the victims from Upper Hungary [in Slovakia] would not only be remembered in Upper Hungary, the ones from Southern Hungary [Yugoslavia] not only in Southern Hungary, and the Romanians not only in Romania; in other words, we would create a sort of common symbol for all of us, so that the world would learn that this happened to us, and on this monument we

would engrave the names of our martyrs, or we would deposit the complete list somewhere.

[Kincses] Visiting the Yad Vashem Museum in Jerusalem, the Museum of the Jewish Holocaust, I realized that the dreadful things must not be forgotten, but that one must remember in a civilized manner. We should really create a similar museum commemorating Hungarian martyrs, because indeed a lot of minority Hungarians have been massacred since Trianon [peace treaty after the First World War] only because they were Hungarians; that is to say, there was ALSO a Hungarian genocide, and we must show this in order to approach recent history in an adequately discriminating manner.

### Heated Arguments Expected

[Matuska] It was apparent that the December conference was convened at the spur of the moment. We witnessed almost embarrassing scenes. Does the preparation in progress provide any guarantee that the delegates will not engage in badmouthing each other, but that after serious preparation they will conduct moderate and dignified discussions, with the appropriate results?

[Kincses] By all means, it would be good to keep personalities out of it, and contrast ideas and arguments instead. In my opinion there will be very heated arguments, since the definition of the task of the World Federation itself is a matter of contention. This concept, which is supported by many, not only by me, namely that the World Federation of Hungarians should be principally the federation of Hungarians abroad, will obviously cause many debates. I am not afraid of debates; I would only like to keep personalities out of it. That is to say, I am not against passionate discussions; very good, sober-minded decisions can be developed during heated discussions, but there should be no room for personalities.

[Box, p 3]

### Sandor Csoori, President of the MVSZ: Third Worldwide Conference of Hungarians

The World Federation of Hungarians was created after the First World War as a result of the fact that the peace treaty broke apart the Hungarians who had lived in a unified state until then, and because of this breakup, and because of the earlier emigration, many Hungarians wound up outside the newly drawn Hungarian borders. The federation organized the first world conference of the Hungarians of the world in 1929, and the second one in 1938. President Sandor Csoori hailed the next one as a historical dress rehearsal, and wrote the following about it: "... We will be able to piece together again the shattered nation from the mosaic fragments preserved within us, as we have done several times throughout our history.

"Hungarians from every corner and continent of the world will come to this historic meeting: (...) From Transylvania and America, from Upper Hungary and

England, from the ravaged regions of Croatia and Serbia, possibly even from Cape Province."

[Box, p 3]

### Dr. Elod Kincses, First Secretary of the MVSZ: The Tasks and Structure of the World Federation of Hungarians

"Safeguarding the culture, improving the economy and insuring the rights of Hungarians in the mother-country is the task of the democratically elected Hungarian government and parliament.

"Safeguarding the native culture of Hungarians abroad, improving the economy of these minorities and protecting their rights is primarily the task of the World Federation of Hungarians.

(...)

"1. Hungarians abroad should be included in the creation of a successful Hungary. As we all know, there is no more efficient Hungarian national policy than to strive for a Hungary every Hungarian can be proud of, so that every Hungarian can perceive that it is worth being a Hungarian.

"2. The World Federation of Hungarians should group together and build closer bonds between Hungarians forced into minority status and those living in 'Western' exile (dispersed), in order to better the economic and cultural situation of Hungarians living in the successor states, and to protect and assert their rights at international meetings and in the international press. This activity would have a positive impact on the life of emigre Hungarians, as well."

According to first secretary Kincses's concept, the Hungarians in the West and the minority Hungarians in the surrounding states would each send 80 delegates to the conference, compared to the 60 delegates from Hungary. In the 19 member presidium which will be elected, the Western and minority Hungarians would each elect seven delegates, compared to five from Hungary.

### Jeszenszky on Expatriates' Voting Rights

92CH0691A Budapest 168 ORA in Hungarian  
2 Jun 92 p 6

[Interview with Foreign Minister Geza Jeszenszky by Erno Kardos; date and place not given: "Expatriates Reevaluated"]

[Text] *Four decades' experiences were discussed for seven days at Balatonkenese at the European Protestant Hungarian University Extension. What is the role of Magyars living in the world, what connecting link can political expatriates be, is there still a need for this role at all? Erno Kardos interviewed Foreign Minister Geza Jeszenszky on these questions.*

[Kardos] In your opinion, how could Magyars living abroad, primarily those who live in the West, help Hungary?

[Jeszenszky] Magyars living abroad always helped the mother country, at times against the Hungarian government, in opposition to the communist government, and the communist administrations always looked upon expatriated Hungarians as enemies. They sent agents abroad to undermine [their organizations] and to recruit them, generally rather unsuccessfully. Thus, until now they represented a Magyar cause that was not represented by the Hungarian governments. This has now come to an end, and expatriated Magyars, too, can now represent universal Magyar national interests.

[Kardos] Will the fact that Magyars living abroad are definitely divided politically not result in importing antagonisms to Hungary and, conversely, will the fact that Hungarian internal politics is infested with conflicts and disagreements not result in exporting that to the Magyars living abroad, causing strife among them?

[Jeszenszky] It is absolutely inconceivable in a democracy and in pluralistic societies not to have any disagreements. That is the essence of democracy. Divisiveness in certain issues may be unfortunate but, in essence, we are talking about people of different views who are trying to find various ways to make their country flourish by joining various parties or organizations. Thus, I do not see any danger in the mere fact that the old, and not so old, disagreements, organizational controversies, and personal antagonisms of expatriated Magyars will find their way home and become known here. We used to know less about these and were sorry that they existed. I see even less danger in exporting our domestic party politics, for this cannot be halted by peremptory order, and I find it natural that, in watching the Hungarian situation, the Magyar living abroad has preferences. The latter will not necessarily coincide with those of the individual parties in Hungary.

[Kardos] I heard last week that certain groups want to call upon Magyars living abroad to demand the resignation of Hungary's president. Do you not think that this is harmful?

[Jeszenszky] Various views have been circulating ever since there has been pluralism in Hungary, so this is merely one of many that has happened to receive a little more publicity. Concerning the debate on the Constitution, which is a concrete matter, a group or a person I do not know developed a personal theory and called upon everyone to support it. Of course, everyone has the right to do this, and everyone can judge for himself whether the view is attractive or not. I do not believe that it would be right to make a "case" out of this, for such things have been going on, which is entirely natural.

[Kardos] And do you not think that if expatriated Magyars will have the right to vote, as it is being debated at present, there will be even more tensions in politics?

[Jeszenszky] I do not fear that, say, Hungary's political divisiveness would be exactly duplicated among Magyars living abroad where there would be even more reasons for close cooperation. Thus, I strongly agree that it is in the interest of our country, of our nation, to keep internal politics "inside" instead of allowing it to go abroad, and to avoid denouncing each other, to avoid conflicting actions.

[Kardos] What is your opinion on giving expatriated Magyars the right to vote?

[Jeszenszky] The point is precisely that I do not see any serious danger in that. Some expatriates closely followed the events in Hungary even in the past, and in many instances do this perhaps even more closely today, getting information much more easily. Hungary as a political nation, and Hungarians, always had very clear-cut political opinions. Thus, regardless of whether they do or do not have the right to vote, Magyars living abroad simply do have their opinion regarding the situation in Hungary. It may often be good, it may appeal to some, it may not appeal to others, but this pluralism does exist abroad also. Therefore, the point here is not that we would export our internal debates through this right to vote, but rather that their debates have already infiltrated into Hungary anyway, indeed, even causing in certain instances more divisiveness and a kind of confusion. Because, after all, they are not as familiar with the background of our debates.

The decisive factor is that the right to vote goes together with Hungarian citizenship and, thus, those Magyars abroad who are Hungarian citizens can actually exercise this right by applying for a Hungarian passport. There is no need for special regulations in this regard, this is not subject to a government decision, they do have the right to vote. There is, of course, a requirement here, namely, that they must have a permanent and registered residence in Hungary. One could contemplate on whether the latter is justified, although the practice of most other countries is that these citizens live abroad and may exercise their right to vote not only by returning home but also by voting at foreign [diplomatic] missions [of their countries].

[Kardos] Those who are against this argue that this would spread the next Hungarian election campaign practically all over the world. They also add that this would always benefit the given power establishment and, consequently, the politicians of the present administration could now benefit from better campaigns with more frequent trips to America.

[Jeszenszky] On the one hand, I dislike the term "power establishment." We are officers, but this is another matter. I do not believe the Hungarian government can be accused of an excessive presence abroad, in politics abroad. I receive much information that it is precisely the representatives, politicians and persons of the opposition who participate, with great intensity, in political science conferences, and grants and there is nothing

wrong with that. I can see that the opposition has rather good opportunities to voice its views abroad. I do not believe that Hungary's political forces would have the energy or the money necessary for an intensive campaign abroad. What they demand is a symbolic thing that will have practically no discernible effect on the results of the Hungarian elections.

**Csurka on Voivodina, Media Battle, Privatization**  
92CH0695A Budapest *MAGYAR FORUM*  
in Hungarian 4 Jun 92 p 2

[Article by Istvan Csurka: "Live Coverage; A Week's Interconnections"]

[Excerpt] [passage omitted] Apparently, there are no Hungarian groups that suffered injustices after the war, similar to the Germans of the Volga River region. Magyars, even though decimated, are preserving their culture in Voivodina [Vajdasag], an area of Serbia close to us. It is said that they are frightened because they will be driven out of their homes in order to make room for Serbians arriving, fleeing from other areas. But why there? Should not Serbians be settled among Serbians? Is this the extent of the seriousness with which the Serbian government distances itself from genocide? If Germans are allowed in Marenburg, Seelman, Eckheim and, of course, Engels (Stalin's humor!), to rebuild their characteristic houses on the two banks of the Volga River between Saratov and Volgograd, then the autonomy of Bacskas Magyars cannot be an unnegotiable issue either. And it is especially preposterous that armed people, incensed by blood and failure, now assault defenseless Magyars. This should be included in the conditions for terminating the sanctions.

In addition, all this must be a condition for our cooperation with the new Yugoslavia.

On the other hand, the situation in Hungary is that it has become certain that the media's and the president's war against the prime minister will not rapidly end—to use a chess terminology—in a stalemate. There will be no good moves as long as the chessmen are on the chessboard. In an unusual way, there are two red bishops on the board—for the time being.

The administration is accused of trying to put a yoke on [Hungarian] Radio and TV. They claim that they want an independent radio and TV. There is an absurdity in this: Would this administration (we swallow the adjective) dare attack these media if they were indeed independent? Moreover, would the unified opposition protect TV-radio with such zeal if they were independent? The answer is: no, and no. Under the leadership of the president of the Republic, the opposition is protecting its near-monopoly in communication, and the administration is fighting against this monopoly because it is excluded from it. It is forced to take risks because it is being cheated and because it is losing the game.

Certain com-lib or lib-com program editors (depending on which they affiliated with first) have come to the point where they edit the REGGELI KRONIKA [MORNING CHRONICLE], for instance, at the expense of Radio's integrity. Following a one-or-two-minute or one-or-two-sentence, superficial news block that fails to summarize either world or domestic events, they turn immediately to the press review, as a form of information on par with news and as part of information. They combine news with a NEPSZABADSAG article as if the fact that so-and-so, a former communist, indulged in a ferocious attack against the administration or a political science analysis that makes everyone shudder were the same kind of event as the number of dead in Bosnia, what Bush said somewhere or, goodness gracious, that the Etna erupted again. Both are rattled off in the same mushy voice. What concern it is of the editor this undermines Radio's reputation, for this reveals nothing—outside of incitement against the administration—but the fact that Radio does not have an independent news department. It is dependent on the press.

We know, of course, that hundreds of people work there to no avail. The news put together by them does not reveal that everything there is full of despondency and that one has absolutely no opportunities. Radio's own commentators cannot criticize the administration in "independent" Radio's news program either and, consequently, they must refer to something. The distortions of the *MAGYAR HIRLAP* or the *NEPSZABADSAG* must be borrowed. The former party paper now has a foreign owner. [It has] commentators, too. They are even reeducated. They are as independent as the shadow on the ancient toilet's semitransparent glass door, behind which, in the foreign ownership's cloud of fragrance, the constipated bolshie appears only vaguely in the background. There are one or two Goncz proteges who have the right to disregard unwritten rules and to undermine the professional integrity of their own institution in the interest of the great and holy cause. And the cause is to wipe national Christian values out of Hungarian life.

Hungarian society is increasingly under the Mafia's control, the privatizing independents are getting louder. This is what offends people the most. It offends them but they keep quiet and endure. Unfortunately.

For instance, it was still the old regime that privatized Tungsram, i.e., passed it into some U.S. hands. Since then, Tungsram products have been squeezed out of the world markets, 6,000 people ended up in the street, and the release of some more is expected. This is development? It is as if we were hearing the Russians: nuku [zilch]. And this is going on everywhere. Squander and irrevocable measures disguised by ideology. The worker has no say. Because he knows nothing about it! Only the comrades know something about it. Well, really, they have demonstrated that.

Gyula Horn received another distinction. This time he was recognized by German Free Masons. A communist

in a Masonic lodge, that is really something! Yes, the world is becoming abhorrently Mafia-controlled. And, just try to make a vague reference to bolshevism-liberalism, and they will immediately attack you for being anti-Semitic. What you are good for here is merely to congratulate them, putting your trowel aside. Now the MSZP [Hungarian Socialist Party] even has a Christian faction, it fraternizes with the MSZOSZ [National Federation of Hungarian Trade Unions], supports the pioneer movement, is getting the hang of being social-democrat, just like a little dog gets the hang of barking and, lo and behold, now it also has a Masonic connection. It is a universal party. It has everything in it. Everything that is needed for deceiving people and for regaining power. Honor and glory, God, nation, and liberty—the MSZP can supply it all. Only rarely do one or two tiny red fleas jump out from the creases of the quilted [Russian-type] uniform. The wonder forwards are all sitting on the bench: Miklos Nemeth in London, Comrade Bekesi at Fotex, and Rezso Nyers at CO-nexus. It does not matter. They keep their hands on the dough as is customary for godfathers.

But no survey is made on this. Those who conduct public surveys do not ask a single soul whether he would prefer that the new capitalist—who is often another party secretary—employ the former party secretary at a salary that is ten or one hundred times higher than his, or that he would put him at the work bench, at a salary equal to his, so that the son-of-a-gun foxi-maxis [pun: Marxist soccer player] will finally grab the butt-end of the stick.

The actual processes are hidden by the “independent” media. This is why they have to be defended tooth and nail, otherwise some would be revealed.

HERE: IN BUDAPEST-MARXSTADT, in liberalism’s “autonomous territory” [Pun: Hungarians usually date a writing at the end, and include the name of city.]

**Debreczeni on Two-Thirds Laws, Goncz’s Power**  
92CH0750A Budapest UJ MAGYARORSZAG  
in Hungarian 3 Jul 92 p 4

[Interview with Jozsef Debreczeni, parliamentary representative of the Hungarian Democratic Forum, by Dezso Palotas; place and date not given: “The Coalition Follows the Constitutional Path; Liberalism and Tolerance, Here and There”]

[Text] *Jozsef Debreczeni, who has been declared a softee [“mohabacsizo”; obscure reference] and to have defamed Goncz, and who has worked his way up to become the monster of all liberals, is in many respects more liberal than those who recognize only one person as safeguarding our democracy. Isn’t this odd? The fact that this MDF [Hungarian Democratic Forum] representative does not shrink from criticizing Jozsef Antall, his own party’s leader, when he feels that there is reason for such critique and when he has the arguments to support his criticism, says a lot....*

[Palotas] Many mention the existence of two-thirds laws as evidence that a one-third minority is able to force its position upon the majority. This is quite odd, come to think of it.

[Debreczeni] Two-thirds laws are not very well known in longstanding democracies, there is no need for these, because the standards by which such democracies operate are accepted by an overwhelming majority of society. In England, for example, it would not even occur to anyone to touch the foundations of the structure and to replace the kingdom with a republic.... In Hungary, following the ambiguous 19th-Century bourgeois transformation, and after 40 years of dictatorship, we must, in many respects, reestablish the civil democratic political institutional system. Not to grant an entirely free hand to political forces that have won elections is justified, even more so because the Hungarian people have not yet developed a solid political value system: They voted against, rather than for something in 1990.

[Palotas] This does not at all sound supportive of the frequently repeated, rather vague charge leveled by the opposition forces, according to which the coalition wants to “build a concrete wall around its power.”

[Debreczeni] There is only one way in which a concrete wall could be built: if those in power would forcibly change the prevailing constitutional, democratic structure. This is hardly possible in a parliamentary democracy. I am not aware of a single precedent for a government or a prime minister developing a dictatorship. Dictatorial systems have always evolved in democracies under presidential systems of government. The various authorities exercised by the president of a republic are governed by constitutional provisions to a lesser extent [than the powers of the prime minister], and this position can be developed into a dictatorship. Certain signs indicate that Poland, for example, has started out in this direction.

[Palotas] The media law is also a two-thirds law, and the situation that has evolved in the course of debate over the media appears to indicate that the built-in brake provided by the two-thirds principle does not favor progressive forces.

[Debreczeni] A certain continuity exists at the press, many of its members “have also done their job” in the previous system. The Hungarian press, as a whole, cannot be called objective and nonpartisan by any means, it has an anti-government bias; but I regard this as a smaller threat than placing the press in the hands of the government. Churchill had something like this to say about such situations: A bad, but free press is always better than a hand-fed, good press.

[Palotas] The question is, into whose hands that part of the press which calls itself free is playing, and to what extent it would favor the opposition if the government changed, but Churchill was obviously correct in principle. Accordingly, tolerance manifested by the governing forces is not only a pleasant thing to see, but also

necessary, even though on occasion it looks as if the governing forces were suckers. During the taxi blockade the government could have placed SZDSZ [Alliance of Free Democrats] leaders as ordinary criminals into prison, but they received amnesty instead. Do you think that they manifested similar tolerance in gratitude for your magnanimity?

[Debreczeni] The SZDSZ's conduct during the taxi blockade has indeed been unspeakable. They supported an illegal action that threatened not only the government, but also the entire, newly developed democratic system. Janos Kis's statement and pamphlets distributed by the SZDSZ prove that they would topple the government regardless of how illegal the means they used to prompt the downfall.

[Palotas] You have not replied to the second part of my question, but I will try to raise it in a different way. The prime minister has retreated several times in this unblest media conflict in order to preserve the prestige of Arpad Goncz, and the prime minister has done so even after he had won his case. Don't you think that the other side has failed to sufficiently value these polite gestures?

[Debreczeni] Anyone objectively observing the given situation should have no doubt that the government always remained within constitutional limits regarding these issues, and that the president of the Republic has continually exceeded his role; simply put, he is acting in violation of the constitution. Antall has, indeed, provided opportunities for him to retreat, and it is a fact that during the taxi blockade we restrained those who justly wanted to criticize the president. But I would not say that the opposition is abusing our "courtesy." They are taking unbridled advantage of the fact that the president cannot be held to account (precisely because he has no power and no decisionmaking authority), and that therefore he is able to transgress the limits of his authority repeatedly and with impunity. The fact that we have proven black on white this situation to be true, no sanctions could be invoked. The president of the Republic can be presented to the Constitutional Court only on the basis of a two-thirds majority vote, and efforts like this can always be frustrated by the opposition.

[Palotas] You see, the two-thirds principle can be used in many ways.

[Debreczeni] Principles are always more important than the interests of government. The political stalemate that has evolved must be resolved by using political avenues, within the given constitutional framework.

[Palotas] As revealed in one of the HOMERO broadcasts, the audience was not impressed by your statements stressing the significance of principles and arguments vis-a-vis propaganda of questionable value. Arpad Goncz is most popular, "the president equals democracy," and that's it. The "nonpartisan and free" press propaganda has done its job. What could you [plural] do to get us off this dead-center?

[Debreczeni] The way Jozsef Antall made gestures toward the press, which were mistaken in my view, and which generated adverse feelings against him. Goncz, on the other hand, expressly flattered the press, and the press obviously appreciated the flattering. And then—we can openly say this, by now—Goncz is more of an SZDSZ politician than a nonpartisan president of the republic, and one need not prove the press' commitment to the opposition.... I was greatly shocked when I read in NEPSZABADSAG, for instance, that MUOSZ [National Association of Hungarian Journalists] president Pal Bodor had addressed the MSZP [Hungarian Socialist Party] congress. Had he done so at the gathering of each and every party, one could regard his action as maintaining equal distance with the parties, but if that was not the case, as president of the association of journalists he indeed compromised the entire press. The fact that Horn also spoke at the MUOSZ general meeting is yet another question. The rest of the parties should blame themselves for not taking advantage of this opportunity. We made a mistake if they invited us (and I do not know whether they did) and we failed to react to such an invitation. But the press is something else. Bodor's gesture is indicative of something.

[Palotas] There is no denial: the government received the heavier part of the blessings provided by the two-thirds principle. Do you [plural] envision a way out from this stalemate?

[Debreczeni] We are going to find a solution. This much is certain: We must follow only a constitutional, democratic path.

#### **Smallholders '35' Foil MDF Anti-Goncz Move**

92CH0703A Budapest BESZELO in Hungarian  
6 Jun 92 pp 7-8

[Article by Ottilia Solt: "Attempts To Rebuke President Fails—Loneliness of a Long Distance Runner"]

[Text] As it is already known, the parliamentary factions of the government coalition have requested postponement of the debate of a draft parliamentary declaration addressed to the president of the Republic. Last week's burst of activity orchestrated by the MDF [Hungarian Democratic Forum] has been followed by a sudden retreat. Imre Konya explained that this was done in anticipation of the Constitutional Court's impending decision, adding that the government parties wanted to avoid even the appearance of trying to exert pressure on that independent body. His reasoning did not sound very convincing in light of the fact that when a week earlier the opposition had tried to argue the same point, Imre Konya remained unwavering. This suggests that the government parties must have had other reasons for sounding the retreat.

### Timing

Regrettably, the MDF politicians involved in the implementation of the directives of the Konya plan have shown little flair for providing tactful guidance. From their point of view it was somewhat unfortunate that the peak of the attack against the media presidents had to coincide with an important international journalists' conference, the general meeting of the IPI. This is how it happened that the foreign press devoted such unusually close attention to the Hungarian media war and the constitutional crisis generated by the harsh attack levelled at the president of the Republic.

It was a similarly bad idea to have chosen the day immediately following a spectacular election defeat to take a shot at the country's most popular politician. These blunders, no doubt, have thoroughly incensed some of the already disenchanted members of the MDF faction, but a recent stumble has even enraged a sensitive ally, the Smallholders "35."

### Group of "35" Chooses Course of National Salvation

Barely had faction leader Gyula Pasztor added his name to the famous draft resolution, the MDF moved the same afternoon to withdraw 15 million forints in budgetary support from the Smallholders' favorite sons, the Farmers' Alliance. It did so by casting a negative vote that day on the issue of providing budgetary support to social organizations. The MDF had undoubtedly neglected to coordinate its position with the group of "35" for upon seeing the result, such traditional platforms as the pro-government Smallholders faction revolted. This despite the fact that the Farmers' Alliance is under the control of the Smallholders "10," who since have moved into opposition. The House was already barely able to muster a quorum, so it would not have taken the Smallholders much to throw the plenum into an impasse. But they were not satisfied with stopping at that. Their long-simmering grievance against being treated as little more than a voting machine by Big Brother has resurfaced with great intensity, leading Istvan Prepeliczay to announce at Thursday's session of the Cultural Committee that his faction would not vote to declare Elemer Hankiss unfit to continue as president of Hungarian Radio. And by the end of the week, faction leader Gyula Pasztor concluded that the resolution denouncing Arpad Goncz would actually imperil the nation.

### Long-Distance Runners

The 35-member Smallholders faction also boasts a few real politicians. (There are not too many of them in our entire parliament.) They sensed what the MDF elite, dreaming of a blitzkrieg-like assault, has failed to see, i.e., that this was a very sorry affair. Perhaps they were also hesitant to face the embarrassment of seeing Jozsef Torgyan on the opposition side, standing on solid constitutional foundations. If they had had any doubts at all about the benefits of their action, the results of the political opinion poll published on Monday must have

thoroughly reinforced them. (The Median office registered a rise in Arpad Goncz's popularity; a decline in the Prime Minister's popularity, and a large majority of the respondents placing the blame on the government parties. (MAGYAR HIRLAP, 1 June)

The voter base of the group of "35" is rather illusive... Will they be able willing to tie their political future to that of a losing lot that has treated them with arrogance and purblindness? That would be a bad deal. "From the point of view of constitutionality, Konya and his supporters are probably right," said Sandor Olah, one of the few indisputably genuine politicians currently seated in parliament, in an interview with BESZELO, "but the personal affection people feel toward President Goncz, and the responsibility we have in preserving political stability in our nation have led us to conclude that we should not lend our support to the resolution. Nor can we afford to jeopardize our ability to provide farmers with political representation in the next elections."

Monday night, faction leader Gyula Pasztor paid a visit to Imre Konya, suggesting that the debate over the proposed draft be postponed.

### Discussions of the Prime Minister

It has been reported that on Monday, the prime minister, who some of the government's angry supporters have charged has opted for treating the Constitutional Court with grace and kid gloves, without coordinating his strategy with anyone, asked to speak, one at a time, with some of the leading spokesmen of the MDF faction, including the faction leader. Afterwards he had a long talk with the president of the Republic. It is worth mentioning that contrary to the preliminary script prepared by Ferenc Kulin, Elemer Hankiss's committee hearing will not be closed, and no decision will be rendered. In the meantime the Constitutional Court has already taken up the Dornbach initiative which challenged the constitutionality of the 1974 decree issued by the Council of Ministers on the legal status of Hungarian Television. According to inside information, this source of legal reference will soon be rescinded, which amounts to an implied commitment to passing the new media law.

The short-distance runners of the MDF have been abandoned, and it appears certain that they will not be able to attain their goals. The clearsightedness of the long-distance runners has prevailed.

### [Box, p 8]

In connection with the most recent decision of the president of the republic, TV News has decided that it was necessary to cite the following two sentences from the decision of the Supreme Court:

"Declaring the right to appoint unconstitutional requires justification that must be as serious as the right to convene and dismiss parliament...."

"It goes without saying that the opinion set forth with respect to appointments, also applies to dismissals."

The Constitutional Court has issued two decisions in connection with the president's sphere of authority with respect to appointments. From these rulings we feel that the following statements are worth remembering:

Excerpt from Decision 48/1991 (IX. 26) of the Constitutional Court:

"In exceptional cases the constitution also allows the president of the republic to render decisions that are final, irreversible, and for which neither the president, nor any other organ can be held politically responsible by parliament (independent political decision making)... In the interpretation of the Constitutional Court, the president's use of his authority to refuse to appoint somebody for substantive reasons is just such an independent political decision..."

"Appointments fall within the sphere of authority of the commander-in-chief; by exercising that authority, the president fulfills—among other things—his responsibility, as defined in paragraph 29 of the Constitution." (According to paragraph 29, Hungary's head of state is the president of the republic, who symbolizes national unity and exercises vigilance over the democratic functioning of the state apparatus.)

"The scope of exercising this authority also includes the right to reject a nominee, which in essence precludes the requirement of a countersignature... According to the constitutional interpretation of the president's appointment authority, therefore, he does have the right to reject an appointment. Consequently, an authority, which by the expressed intent of the constitution only a countersignature ties to the president's accountability to parliament, becomes the president's independent political decisionmaking authority once it appears evident that he has no other choice but to refuse to countersign..."

"...The refusal to countersign must be justified by extremely well-founded objections raised against the proposed appointee, or by a series of disturbing appointments, which in the interest of defending the democratic state order leave the president with no other choice, but to put an end to the process."

Excerpts from the dissenting opinion of justices Dr. Kileny, Dr. Peter Schmidt, and Dr. Imre Voros:

"...The essence of divided authority is precisely to ensure that...none of the participants in the decisionmaking process is afforded the exclusive right to render decisions; they are bound by the wishes of the others involved in the decisionmaking process, hence positive decisions can only result from a consensus. (The president can make negative decisions even without a consensus...)"

Excerpts from Decision No. 8/1992 (I.30) of the Constitutional Court:

"Vigilance over the democratic functioning of the state apparatus—which is one of the basic duties of the institution of the presidency—is a cornerstone of the constitutional interpretation applied in cases other than simply those pertaining to the president's extraordinary powers to intervene. This duty also implies that in exercising his rights of authority the president must always be mindful of the democratic functioning of the state apparatus as a whole, including the procedural and technical considerations involved. This 'vigilance' is not limited solely to resolving crisis situations, but also to the normal conduct of state affairs as a whole..."

"In the course of exercising his authority, the president must reconcile the two responsibilities, both of which stem from vigilance over the democratic functioning of the state apparatus as a presidential duty. On the one hand, he must render his decision concerning appointments without undue delay, otherwise he would be hindering the democratic functioning of the affected governing branches of the state apparatus; on the other, sufficient time is needed to ensure that he can provide the necessary guarantees connected with his sphere of jurisdiction in the appointment process. By virtue of this latter responsibility, the presidential act of appointment is more than just a mere formality..."

#### **SZDSZ's Peto on Internal Party Dynamics**

*92CH0774A Budapest MAGYAR NARANCS  
in Hungarian 9 Jun 92 p 2*

[Interview with Ivan Peto of the Alliance of Free Democrats, member of parliament, by Laszlo K. Toth; place and date (not give): "Sado-Maso"]

[Text] [Toth] In 1989 you appeared on the scene together with Peter Tolgyessy. Earlier you assessed the fight between yourselves as not a rivalry between intentions, but between persons.

[Peto] I have never really used the word "fight"; but basically, I still assess our much weaker opposition in the same way, although according to the order and logic of politics such a relationship is never stable. If the disputing parties attempt to convene supporters for their personal ambitions, the matter could easily be transformed into a political opposition. In connection with Peter Tolgyessy's election within the Alliance of Free Democrats [SZDSZ], I have said that political differences have already appeared. For the attainment of no political position would I have accepted the kind of support that he accepted, promised the kind of things that he promised, and especially mobilized the SZDSZ in my own interest with the kinds of means he did. As I see it, he is unable to tame the genie which escaped from the bottle, and perhaps he has already realized this himself. It is obvious that the difference between our political styles is not just a flourish, but a political difference. Having said that, I do not consider the differences in our principles to be dramatic; I think they can be overcome. The question is whether the opinions

can be technically coordinated, or have the personal, even emotional, problems become so important that they would hinder cooperation? In other words, is the rivalry exclusive or inclusive?

This is what is fundamental, and not the political differences which, in principle, could have ample room within one party. After all, the fact that we do not find a common voice is not a matter that concerns only the two of us; rather, it has the consequence that the SZDSZ is stuck in its own affairs, which would be tragic. That is to say, I am not afraid of what Debreczeni keeps predicting, that the norms of the SZDSZ are not sufficient to get more than 4-5 percent at the elections, but I am afraid that because of two-bit internal conflicts, the SZDSZ will not be able to deliver the 20-25 percent which it is "good for" in my opinion.

About the preliminaries let me say that we were elected into the leadership of the SZDSZ at the same time. In the informal hierarchy, Tolgyessy was on a higher level, because during the Round Table Discussions by the Opposition he was given an authorization by the leadership of the SZDSZ at the time, which made him immediately one of the party's leaders. I, on my part, was one of the negotiators; but I could mention other differences, as well. I became a member of the SZDSZ in the first instance, while Peter Tolgyessy only joined the party in the course of writing the program, before the first delegate assembly, on Balint Magyar's instigation, because originally he only wanted to participate in the work as an expert.

The leadership of the free democrats, when I was a member of it, made the important decisions together. We decided together how we should behave during the round table discussions and at their conclusion, and we also decided together that we will initiate a referendum. For instance, the speech which Tolgyessy read aloud at the conclusion of the negotiations—and which made him nationally known—was written by Janos Kis. In other words, the leadership consciously pushed Peter Tolgyessy forward and allowed him to go ahead during the Round Table Discussions by the Opposition, and consequently he played a number of roles which were not exactly his inventions, but rather the result of joint work. But I can say the same about my own career. By assuming the role of spokesman, I embodied the SZDSZ during many public appearances. But I know and keep in mind that what the public registers as my personal success is largely built on the work of Janos Kis, Miklos Haraszi, Balint Magyar, and others in preparation of my public appearances.

[Toth] At the time Tolgyessy was removed from his position as faction leader, the public became aware that there were serious differences within the leadership of the SZDSZ. According to the party president, his removal took place almost in the form of a coup. How do you see this matter?

[Peto] The important thing is not how I see it, but the facts. Peter Tolgyessy was removed by the faction, although in chaotic circumstances, since such matters are rarely "chemically pure." The officials of the SZDSZ at the time regarded the way in which Tolgyessy led the faction as absolutely unacceptable. He did not call meetings of the faction's leaders, and he wanted to put emphasis on the parliamentary faction and not on the Board of Officials, even though the major political decisions were made by the latter. He held speeches in parliament which he did not check with anyone. Moreover, although earlier the faction had already unequivocally rejected Tolgyessy's idea of the way to organize leading the faction, he still pushed the rejected version. Because of the accumulated problems, we met to put the matters in order. We told Tolgyessy about the problems. We did not go so far as to demand his resignation, but the conclusion was in the air to such an extent that Tolgyessy himself brought it up. This discussion took place on a Saturday, the last day of campaigning before the second round of municipal elections. On the next day we gathered together in Merleg Street and were waiting for the election results. Everyone who had been present at the meeting on the previous day had a bad feeling that we had not crossed the t, that out of tactfulness no one had said it would be better if Peter Tolgyessy did not function as a first man, but rather—since everyone recognizes his knowledge, ambition, and talent, but knows his shortcomings as well—that he should remain an official and a member of the leadership of the faction, but he should be replaced at the head of the faction by someone who asks for other people's opinion, who does not pull the affairs out of his pocket, someone who is more predictable and balanced, and is more suited for the systematic preparation of decisions. I don't remember exactly who mentioned again at this time that what had happened on the day before was not enough, let us finish the discussion by drawing the conclusion, namely that the faction leader should resign. Then Tolgyessy asked if we were in agreement with what was being said. Those of us present—I am certain Matyas Eorsi, Balint Magyar, Peter Hack, Janos Kis, and I were there—agreed, and at that point Tolgyessy declared he would resign. It was agreed that he would announce this fact.

This turned out to be a difficult matter, because the SZDSZ performed well in the municipal elections. The members of the faction got together to celebrate, and after a certain awkwardness they announced Peter Tolgyessy's resignation. Originally it was agreed that he would give the reasons. He did announce the fact, but he did not add anything to it, and thus the members of the faction were at a loss. Until then we thought that although the faction also sees a part of the problems, open criticism would harm the SZDSZ, and for this reason we treated the conflict as an internal problem of the leadership. Thus, though the majority of the faction could not accept emotionally that the SZDSZ leadership is not unified, it agreed that the faction leader cannot function as before and as Tolgyessy had intended to go

on. The majority voted not to accept the conditions of Tolgyessy's leadership of the faction which were being newly formulated at this ominous meeting. In other words, there was no coup, but a large part of the faction has not processed the events emotionally, and, since after a while they only remembered their astonishment at the time, they were left with the impression of a "coup."

At that time, Tolgyessy disappeared for months, although no one wanted to keep him out of the leadership. We regarded him as an important, even irreplaceable person, and I was hoping that his love for the matter would bring him back. I was wrong. Until the time he was elected president, he withdrew not only from the political leadership of the party and the faction, but also from parliament.

[Toth] What is your opinion about his having been elected president of the party?

[Peto] I stated my opinion when I gave up my position as faction leader. I only want to add that Peter Tolgyessy is the elected leader of the Free Democrats, and whatever I do not agree with him on, how far I do not accept his style of leadership and politics, none of this affects his position. In other words, I do not question his legitimacy as party president, nor does it affect my loyalty, since I would like it if all of this did not disturb our cooperation. Let us not talk about these differences of opinion until the time comes for it during another delegate assembly. From the point of view of the SZDSZ it would be suicidal to take steps now against the elected leader, but it is also apparent that without the founders and former leaders of the party it is hard to imagine an efficiently functioning SZDSZ.

[Toth] I would like to hear a few words about the internal factions, the existence of which was one of the pivotal issues of the discussions within the SZDSZ.

[Peto] An internal faction must be constructed on shared principles. There are two internal factions within the SZDSZ, the Conservative Union and the Liberal Circle. The former considers itself closer to the American Republican Party, the latter to the Democratic Party. However, these are very heterogeneous parties, and because of that there are points of contact between them. Of course, the two great American parties are not mirrors of our ideas, and the other way around; I only brought up this example to illustrate that, indeed, there are differences of opinion among us. But this fact does not stand in the way of pragmatic politics; moreover, it does not create any conflicts between the two internal factions, inasmuch as the two even cooperate as a Liberal Coalition. Our ideas about the agenda in parliament coincide, and many outside the internal factions share the point of view of the internal factions in political questions. Because the internal factions are organized around principles, I cannot call the Association of Those Outside the Internal Factions, the PAKSZ, an internal faction itself, as it is not regarded as such by its members either. This

is a loose association between various people. I think that every modern political party is an association of trends, that is to say, of people thinking in many different ways, who agree on some basic issue, and thus a grouping into internal factions is a natural condition.

There can be organized and unorganized variants of this condition. In the SZDSZ the thought of establishing internal factions arose in 1991 in the course of the election of the party president, or rather the delegate assembly. We thought it would be good to be able to nominate people for the leading positions of the party in a consolidated form and not in an open campaign. If there are various political trends, then it is more expedient if the parties make agreements directly with each other rather than if they compete in a sharp political fight. Not personal rivalries, but political discussions should characterize the competition for leadership positions, just like in a modern West European party.

[Toth] Some observers say that the dissensions within the SZDSZ were beginning to jeopardize the existence of the party. It seems that you have come to an agreement just in time.

[Peto] In the SZDSZ there is a general recognition that if there is no cooperation to unite the political ambitions and the people, then each free democrat is preoccupied with his own problems. In this situation the internal factions began to sort out their own positions; this demanded not only technical, but political prerequisites. The internal factions which call themselves the Liberal Coalition forwarded a document to the Board of Officials, because in their opinion in any case it would be good to come to an agreement about its content. An alternative of the document was prepared for the officials, which we discussed. Ferenc Koszeg prepared an intermediate document on the basis of the discussions and the original proposals. This is how the final agreement was reached, for which I see a triple function.

The most significant one is the gesture that the most important political groupings—the internal factions and the Board of Officials—, as well as the people belonging to them, who have up to now shaped the features and politics of the SZDSZ, are addressing the public with a common point of view. It is also very important that we registered a number of principles, some of which are contained in earlier documents of the SZDSZ, but in this political environment and stated in this way, they are more significant. The newer ones are based on the experiences of the last two years, such as the necessity of the acceptance of economic differentiation within the constitutional state, or the ideological neutrality of the state and state institutions, i.e., the separation of church and state. Beyond that it is important to stress that groups of free democrats and statements attacking the local governments or officials of the local governments belonging to the SZDSZ are contrary to the interests of the SZDSZ and cannot be supported in any way. Without stating this, uncertainty would remain in the SZDSZ, because earlier attempts were made within the

party which weakened the local governments and stirred up conflicts for their own sake, anti-communist statements which at the same time advocated egalitarianism, and opinions about the separation of church and state which were not those of the SZDSZ. It is very significant that the Board of Officials made a normative statement on these issues together with the internal factions, because this means that in the future we can take joint steps in order to enforce them.

The third important part of the agreement is that it accepts the existence of the internal factions, and gives them different licenses of infrastructure and information. In other words, the internal factions have been institutionalized, but there is no question of a division of power, the sphere of authority of the elected bodies remains intact.

[Toth] Did the agreement come about for pragmatic reasons, or did the views come closer as well? What are your impressions of the cooperation after the first weeks?

[Peto] I hope everyone accepted the final document because he agrees with it. Of course, a compromise is involved, but an agreement establishing principles and rules of operation cannot be signed half-heartedly, because it will be discovered quickly if someone does not keep to the document. From the beginning the common wish was that there be agreement. About the experience of the first weeks I can say that in my opinion the members of the SZDSZ greeted the cessation of tension with satisfaction and delight.

[Toth] As far as the future is concerned, I think we agree that the success of your role will depend largely on the durability of the internal compromise. Beyond that, what do you consider important from this point of view?

[Peto] One must function on the basis of clear norms, which will either drive away or consolidate forces that perceived only one dimension in us during the previous elections: the consistent opposition to a one-party state. Conditions outside the SZDSZ are also at least that important. It would be good, for instance, if the overwhelming majority of society which does not like the ideas and the style of the present government would not react by not going to vote, but rather by trying out alternative possibilities.

If the voters become more active—which can be achieved by a good election campaign—then the influence of the SZDSZ will be considerably increased, as was proved by Bekescsaba.

## **Government Scores Goncz Decision on Media Chiefs**

### **Government Statement**

92CH0749A Budapest UJ MAGYARORSZAG  
in Hungarian 3 Jul 92 pp 1, 5

[Statement issued 2 July 1992 by the prime minister's press office: "The President's Decision Is a Grave Disappointment"]

[Text] *The prime minister's press office has forwarded to our editorial offices yesterday a document created at a cabinet session responding to the statement made by the President of the Republic the previous day.*

### **Compatriots!**

Let the government begin its statement by addressing you the same way the president of the Republic had begun his statement yesterday.

In a speech yesterday Arpad Goncz, the president of the Hungarian Republic, had announced that despite the prime minister's proposal he would not relieve of their duties Csaba Gombár, the president of the Hungarian Radio and Elemer Hankiss, the president of the Hungarian Television.

The refusal by the president of the Republic gravely disappoints the government. He summarized the legal arguments supportive of his action in a separate letter; the government is going to do the same "within a rational period of time": it is going to summarize arguments to prove that the president of the Republic is exceeding his constitutional authority also in this regard. We want to emphatically stress, however, that it is not in the government's interest to create tensions between the government and the head of state, and to an even lesser extent, to increase such tensions. This government and this National Assembly have established a functioning democracy in Hungary, have provided, and are going to continue to provide, fundamental civil rights, including one of the most important rights, the freedom of expression and the freedom of the press.

Not long ago, Hungary has once again become a parliamentary democracy; for this reason the government understands why many anxiously protect this democracy going so far as to gathering signatures at one place or another in defense of democracy. Democracy needs no protection from those who received the voters' confidence to establish democracy in Hungary. The coalition government was the one that proposed, and the National Assembly that adopted all the laws whose implementation enabled Hungary to join the ranks of European democracies after more than four decades.

Quickly establishing stable political conditions in Hungary, "and protecting citizens from any excessive exercise of power" were relatively easy tasks. Transforming the bankrupt economy of the past system, overcoming the necessary and unavoidable difficulties at the earliest possible date, and establishing a functioning market economy and living conditions fit for human beings require more time. Among the former socialist countries, only Hungary has succeeded in enabling this huge change to take place within a mere two or three years, and to make the change tangible, its effects to be felt, perhaps by next year. Foreigners observe, support, and highly recognize this work. The way the Hungarian radio and television provide "to every resident of the country nonpartisan and factual information, and a clear understanding of the issues transcending partisan interests" in

this difficult transition period is not a matter of indifference. In 1990 the government had recommended the appointment of "two highly regarded public personalities and social scientists" as heads of the radio and television, in hopes of providing free and objective information. We valued highly the previous activities of Elemer Hankiss in the field of social sciences, because he used the means of social sciences to describe the previous system in its unsightly nakedness. But not even two years later do we obtain truly nonpartisan information. The two scientists were gradually worn out by tough, organized interest groups and by leaders of the staff who ultimately direct these institutions. This is why the government felt that it was appropriate to appoint vice president managers to support the scientist presidents. The vice presidents had been appointed. It comes as a surprise that previously, the president of the Republic had found these vice presidents fit to serve in their positions and had appointed them, just to find the same persons unfit to temporarily serve as presidents a few months later.

The government has proposed to relieve of their duties Csaba Gombar and Elemer Hankiss precisely in order to achieve a goal also espoused by the president of the Republic: "to present a full, balanced and realistic expression of views prevailing in society, and to provide unbiased information about events and facts of interest to the public." These persons were unable to achieve the above-mentioned goals during their two years in office.

The government is aware of the difficult situation the president finds himself in as a result of belonging to the minority in the National Assembly, vis-a-vis the government enjoying the support of a majority in the National Assembly. Although probably against his best intentions, the president has represented the views of the minority in many instances, the views of his own party, and has failed to try to truly transcend partisan interests, to remove himself from the daily political struggle and to behold the kind of moral dignity provided by all parliamentary democracies to their respective presidents of the Republic. On its part, the government provides all the help needed by the head of state to develop such moral prestige, one that is recognized by the entire nation, so as to enable the president of the Republic to exercise his constitutional authority within the framework determined by the Constitutional Court. But whenever the president takes political steps, such steps require the countersignature of the responsible government; only with the government's countersignature can the president exercise the most important constitutional authority of the head of state.

The government once again reiterates that it uses every available means to support and hasten the creation of a media law. It understands that in a newly starting democracy more constitutional safeguards may be needed, and for this reason it has submitted to the National Assembly the most liberal media law in Europe only after lengthy preparation and committee deliberation. The opposition, not the government, has retreated

from the text that sought to achieve a consensus. If adopted, this law resolves the presently disputed issues, and ensures the prevalence of freedom of expression and of respect for facts.

Despite the difficult budgetary situation, the government regards the maintenance of the operational capacity of the radio and the television as important. To accomplish this, the leadership of the radio and the television must manage their material resources in a thrifty manner, and this was the most important reason for appointing vice president managers. It is hoped that regional and local broadcasting to be started soon is going to introduce an even greater variety in programming and render these services even more free.

We agree with the president of the Republic's view that no constitutional crisis exists in Hungary. The National Assembly is indeed "on its well-deserved summer vacation, the governance of the country is not being impeded, and the dismissal or retention of the presidents of the radio or the television do not affect either the international relations that touch upon our lives, or the resolution of decisive economic issues." Exactly for this reason we regret that the president is not guided by these considerations when he judges proposals to dismiss these persons—proposals submitted to him consistent with prevailing rules and accompanied by justifications—but instead, is making a political, partisan decision.

"Within a rational period of time," the government is going to prepare a detailed legal opinion and describe all of its constitutional concerns related to this regrettable decision, and is going to continue its efforts in September for the adoption of the media law by the National Assembly, and for the realization of goals described in the media law, so that the press truly enjoys unimpeded freedom. Now and forever!

#### Legal Expert's View

92CH0749B Budapest UJ MAGYARORSZAG  
in Hungarian 3 Jul 92 p 5

[Interview with Dr. Istvan Balas, constitutional lawyer and parliamentary representative of the Hungarian Democratic Forum, by "d. p."; place and date not given: "This Admission Was Also a Slip of the Tongue"]

[Text] *We asked National Assembly Representative Dr. Istvan Balas, the well-known constitutional law specialists, about the situation that presented itself upon Arpad Goncz's most recent decision refusing to dismiss the media chiefs.*

[d.p.] Many people have analyzed the problem at issue many times. Has the situation changed somewhat as a result of the most recent decision of the president of the Republic?

[Balas] The situation is entirely clear from the standpoint of constitutional law. At the same time, the practical resolution of the problem is a mystery to me....

Acting in its capacity as the authoritative interpreter of the Constitution, the Constitutional Court stated black on white that the Constitution did not provide an opportunity for refusing a dismissal. This opportunity would only exist if the president of the Republic could simultaneously declare that 10 million Hungarian citizens were unfit to fill the posts of radio and television presidents, i.e., that it was impossible to find a single person who could replace Hankiss or Gombar....

[d.p.] One often hears that the Constitutional Court decision is a Dodonian pronouncement, and that the opposition welcomes the decision as its own victory.

[Balas] In the mind of any literate person, the Constitutional Court decision provides a clear-cut answer; it sharply distinguishes between appointments and dismissals. Within an extremely narrow scope, the president of the Republic has discretionary authority over appointments, but he has no such authority with respect to dismissals. This is what the decision is all about. Confusing these two types of actions—and this is what the opposition has done—has misled the public. By heeding the advice of bad advisers, the president of the Republic has totally misunderstood his constitutional position. The main rule regarding constitutional issues is that no discretionary authority exists in regard to actions not involving responsibility. I will repeat, however, that from a practical standpoint, I do not see a way out of this situation.

[d.p.] He has made a political decision—this, too, is part of Arpad Goncz's statement. Isn't this odd?

[Balas] This admission also amounted to a slip of the tongue. The requirement that he remain above the parties also requires him to be free of political influence. I recognize only one instance in which the president could engage in politicking: when there is consensus among all political forces. In a situation when both the governing coalition and the opposition take different positions, and the president adopts the opposition's position—well, in that case the president clearly acts within the political sphere, and this situation cannot be reconciled under any circumstance with his constitutional status.

#### **Democratic Trade Union's Chief on Difficulties**

92CH0750B Budapest HETI VILAGGAZDASAG  
in Hungarian 20 Jun 92 pp 41-42

[Interview with Gabor Horn, head of the League of Democratic Trade Unions, by Akos Tomory; place and date not given: "A Trade Union Leader Responds: 'We Will Not Be Able To Strike When That Becomes Necessary'"]

[Text] "*They want to destroy the trade union movement, employee interest group representatives complained almost uniformly not too long ago, when the MDF [Hungarian Democratic Forum] Monopoly Group presented a proposal according to which persons participating in trade union elections could vote by handing in property vouchers which could also be given away for*

*other purposes. The proposal enjoys the support of Labor Affairs State Secretary Gyorgy Schamschula, i.e., the government, and of Solidarity Trade Union Workers Association. In addition to all this, the Democratic League of Independent Trade Unions is also faced with the resignation of Pal Forgacs, its president thus far. Does the League experience crisis? When could we expect to see a situation in which trade unions begin to deal with the interests of employees, rather than with each other? We asked these questions from the recently appointed acting president of the League, Gabor Horn (age 37).*

[Tomory] You are not only a trade union official but also an employer, in your capacity as the head of a private school. How can these two functions be reconciled? How strong is the trade union in the private school?

[Horn] I do not exercise the authority of an employer because the school is under collective leadership. Incidentally, I am a member of the PDSZ [Educators' Democratic Alliance] Group here.

[Tomory] Many believe that your previous president resigned mainly because it turned out that the League had bet on the wrong horse when it constantly sought the assistance from the parties and the parliament in its battles with MSZOSZ [National Federation of Hungarian Trade Unions] the successor of SZOT [National Council of Trade Unions]. In the end, the politicians do not seem to want to provide distinguished treatment to your organization, despite this fact.

[Horn] That's not at all at issue. The League did not seek help from parliament, and especially not for itself. Insofar as Pal Forgacs is concerned: He left because his health has indeed badly deteriorated. What we placed our bets on, and how much of what we wanted to achieve had been realized has nothing to do with this. The fact is that we have never been close to the MDF [Hungarian Democratic Forum], and we also had to fight the government for a long time to prove that we were not a subsidiary trade union of the SZDSZ [Alliance of Free Democrats]. I realize, of course, that in conjunction with last year's law to protect trade union assets many regard us as a "yellow" trade union, i.e., a trade union faithful to the government, in reality, however, we have very many conflicts with the government. From this standpoint, the present proposal advanced by the state secretary amounts to only an unqualified, low standard public play. I do not understand how a government official could regard as a value the extreme right-wing president of the Solidarity association, a trade union functionary and large entrepreneur who denies the law.

[Tomory] Let us return to the League: You obviously must have friends among the representatives, not only enemies. Why are they not willing to provide further help to you?

[Horn] Politicians did not believe us in 1990 when we said that the system change must be pursued all the way down to the workplace level. Behind this, we find a situation of course, in which no one in Hungary was interested in trade unions. On the other hand, a parliament pursuing sober and realistic policies should have understood that great trouble could evolve if the institutional conditions, the credible organizations for the enforcement of interests were missing. This is becoming a reality these days: Tensions are increasing in crisis centers, the socialist large-plant sectors and settlements are agonizing, and there simply is no one to negotiate with.

[Tomory] Some people believe that the League has done a lot to prevent strong employee interest groups from developing. For two years you have devoted much of your time to a struggle for positions within the movement. Why did you not concentrate more on employees?

[Horn] It is hard to judge what should have been done differently. The League always wanted to develop a successful, credible trade union movement at workplaces, one based on activists prepared to act. Even today, the old trade union bureaucracy is the chief impediment in the path of accomplishing this, it is trying to protect workplaces by using extremist demagoguery. The membership could have dismissed them of course, but the members are too dependent on them, because many of the former SZOT officials are still parts of management in enterprises. And the assets supposed to be used to protect interests serve an entirely different purpose as a result of the MSZP [Hungarian Socialist Party] MSZOSZ election alliance, as that was proven by the interim election results.

[Tomory] As long as you mentioned property: Was the League not too eager in its secret negotiations with MSZOSZ last year? Rumors are that MSZOSZ would have been willing to transfer 40 percent of the assets at that time....

[Horn] To begin with: I took part in those negotiations and I know that this figure was not mentioned. They offered part of the SZOT assets, but the assets owned by the various branch trade unions were not included in the bargain. One wonders why this property was not the subject of sharing. On top, establishing equal opportunity is only one factor in trade union elections; we say this in vain, no one wants to believe us. A far more serious issue is to find out who holds what kind of authorization to represent the membership, or to resolve the issue of autonomous social security bodies. The issues surrounding the recreational system have not been settled, nor have the problems of recreational assets been resolved. We cannot be bought, we cannot be shut up by giving us three headquarters buildings.

[Tomory] This laudable incorruptibility, on the other hand, also serves to explain why the League did not gain strength. Nevertheless, it seems that the abyss between

the two organizations is not that great. Why were attempts for rapprochement always followed by retreat?

[Horn] I must accept your criticism, we are present only in a few workplaces. In vain does the League have about 320 member organizations, this number represents only a small percentage of workplaces. At the same time I am convinced that cooperation with MSZOSZ is not such a simple matter. We were able to cooperate on national issues, under constrained circumstances—such as during the taxi blockade, and we are also seated next to each other in the Interest Mediation Council. Incidentally, MSZOSZ has always retreated when it was supposed to compromise. And otherwise, why shouldn't a an employee group be divided when the values and the emphases are different?

[Tomory] These differences in emphases than brought you to a point where if, for example, one group announced a strike, one could be certain that the other group would counteract that announcement. Don't you feel responsible for having entirely discredited this form of protest with the many half-baked work stoppages?

[Horn] The fact that we are unable to strike when that would be necessary is indeed life-threatening. In December 1991 MSZOSZ spent a lot of money to announce a warning strike; in the end only 90,000 people stopped working. It was a total fiasco and they very seriously hurt the cause of employee interest representation.

[Tomory] The League wasn't idle in this respect either: Not too long ago it announced a railroad strike that did not turn out favorably....

[Horn] I believe, however, that there is a difference between the two. This action was not taken by the League as a national association, but by one of its smallest, twenty-some member organizations. I do not want to throw stones at the organizers of that strike, we have a sense of solidarity with them, but I believe that it was an improperly planned, badly prepared protest. There will be such incidents at the workplace level of course, because we lack an appropriate number of activists prepared to act.

[Tomory] In light of all this, those who believe that it may not be worthwhile for employees to choose from among these "amateur protectors of interests" in the elections, because the ones who subsequently side with the victors reap the benefits, may be correct. Are you not afraid that the trade union elections will drown in disinterest?

[Horn] We conducted public opinion polls which showed that people are interested in the election results. I visit many places throughout the country and do not find passive attitudes, but instead, people who would like to change their lives locally. The only hope trade unions have is to rid the elections from political overtones, and

to have people recognize that strong trade unions constitute an individual interest that reduces their dependence.

[Tomory] On the other hand, if I am correct, international experience shows that in times of economic recession and growing unemployment individual interest enforcement becomes the primary concern.

[Horn] No individual bargaining agreements should be reached. This has been tried by the marines, but a functioning trade union told them, too, to see whether the union could reach a better agreement that provided guarantees.

[Tomory] Some of the trade union leaders may also find themselves in existential uncertainty after the elections. Why is it so important to you for the "moment of truth" materializes?

[Horn] We would like to see clear, at last. It would be good to know who represents whom, whether there is a need for us, and if so, how much latitude we have. Is it necessary to make certain employees independent, what is the membership willing to pay for, and I could go on. We have postponed resolving the problems for two years, and in my view, the real trade union work is going to start only hereafter.

#### **Trade Union Federations Jointly Score Government**

##### **Unions' View**

92CH0718A Budapest *MAGYAR HIRLAP*  
in Hungarian 3 Jun 92 pp 1, 5

[Article by J. O-V: "Trade Unions Will Not Negotiate With State Secretary Schamschula"]

[Text] The federation of six trade unions has turned down State Secretary Gyorgy Schamschula's invitation to a meeting today. In light of the secretary's statement published here yesterday, they say, it has become questionable whether or not such a meeting would be constructive. The federations have chosen instead to write a letter to the prime minister. In a statement to our paper, the league's spokesman Bela Kalmar pointed out that the plan and Gyorgy Schamschula's comments published in *MAGYAR HIRLAP* yesterday, have led them to draw two conclusions.

Disregarding the agreement arrived at by the federations, the government appears to have either decided to openly and consciously provoke the trade unions, or it is already in such disarray that the state secretary of the Ministry of Labor is able to go around doing whatever he wants to with impunity. Kalmar called it shocking that acting upon the provisions of a botched-up Labor Code the Ministry of Labor would openly espouse the unconstitutional and from the professional and political points of view equally absurd idea put forth by the MDF

[Hungarian Democratic Forum] Monopoly Group, proposing to break up and redistribute among the employees the assets of the trade unions in the form of coupons. This solution—according to the league's spokesman—is unconstitutional because the 30 Apr decision of the Constitutional Court makes it unequivocally clear that trade union assets can only be redistributed among the trade unions. He finds the Monopoly concept, supported by the state secretary, unacceptable because it implies that worker interests no longer need to be protected.

Responding to the government plan and the state secretary's comments, Kalmar asserted that the league had been consistent in promoting social tranquility, and that it had no intention to start reacting to provocations in the future. The spokesman felt confident that the trade unions would succeed in finding ways to cooperate, and earning the support of society sooner than the government. The violation of the 22 Apr agreement, Kalmar stressed, was only one of several instances in which the government has failed to fulfill the obligations it had undertaken. In that agreement they had promised the trade unions to do everything possible to ensure that the draft voting statute, which also included the recommendations of the federations, would be adopted by parliament before 1 July. Now, on 1 June, it turns around and submits a plan that is in direct contradiction with earlier agreements.

Attila Balint summed up for us the view of the MSZOSZ [National Federation of Hungarian Trade Unions]:

"The MSZOSZ was shocked by the proposals put forth in the government plan. The Ministry of Labor has completely ignored the agreement reached by the trade unions, according to which only employees, the unemployed and pensioners would be qualified to vote."

Naturally, in this case the social insurance registry, not the records of the Census Bureau should serve as the starting point for the determination of eligibility.

Also peculiar is the notion that the extra effort that may be involved could somehow be spared by resorting to injustice. For people of conflicting interests participating in the trade union elections—which may have an impact on interest representation—will now be able to decide whom they would like to be seated at the other side of the negotiating table. And it is downright unprecedented to allow employers and government bureaucrats to vote on the future of trade union assets. The most blatantly obvious, however, are the real intentions of state secretary for labor Gyorgy Schamschula.

According to him the balloting should be not about how to divide up the assets among the trade unions, but rather about how those should be divided up between the government and the trade unions! This is what Gyorgy Schamschula really had in mind when suggesting that it should be left up to the populace to decide what share of these assets it wants to continue to commit to supporting the trade unions.

The views expressed by the state secretary are completely alien to the spirit of Law No. 28, the corresponding ruling of the Constitutional Court and even the ministry's own draft proposal, which bears his signature. Should the state secretary decide to recommend to the prime minister a review of the draft's content by the Constitutional Court, it would be good also to clarify right away whether or not the Antall government really wants to see strong trade unions.

Of course if parliament should decide to lend support to the proposals put forth in the Labor Ministry's plan as they pertain to voter eligibility, they might also want to consider moving ahead the date of the 1994 elections. After all, with the same voters participating and the same parties promoting themselves the citizens would no doubt be most willing to charge the additional expense involved in preparing a new ballot against the collective assets of the trade unions.

#### State Secretary's View

92CH0718B Budapest MAGYAR HIRLAP  
in Hungarian 3 Jun 92 p 5

[Interview with State Secretary Gyorgy Schamschula by J. O-V; place and date not given: "Schamschula: They Want To Put the Blame on Us"]

[Text] We have also asked Gyorgy Schamschula to comment on the trade unions' rejection of his invitation.

[Schamschula] I think one can always find excuses but what we have in this case, I believe, is an admission on the part of the trade unions that they could not agree among themselves, so now they want to shift the blame over to us. The draft they had submitted last week clearly shows that they were unable to forge a consensus. On every issue of substance they have taken two different stands.

[J. O-V] But when they finally did come to an agreement you found their position to be unacceptable... According to their complaint it is untenable to have employers and government officials voting on the question of who should represent the employees.

[Schamschula] Look, this is an issue that pertains to the mechanics of the balloting process. The make-up of the registry of voters is not a political issue but a matter of fact. The plan was prepared by balloting experts; if they don't like it, let them come up with something better. They must realize, however, that any change they may propose will entail additional expenses. If they are willing to cover those expenses from the collective assets of the trade unions, they are welcome to do so. We have 500 million forints set aside for area committee elections, and in this we also hope to be able to squeeze in the cost of the preference poll. If they want to do it differently, it will be an expensive undertaking. Coming up with a new plan will also be costly in terms of time.

[J. O-V.] According to the trade unions the constitutional review has cut further into an already short preparation time. This despite the fact that the government had promised to do everything it could to ensure that parliament would be able to act on the draft law by 1 July.

[Schamschula] No such promise was ever made. The trade unions did present a request, but we told them that what they were asking for was unrealistic. It takes a week for the draft to make its rounds within the ministry, after which it is sent to the state secretary for review. By 19 June, it may reach the government and by 22 June, it may be put before parliament. On 23 June, parliament will conclude its current session. It would, therefore, be physically impossible to meet their request.

[J. O-V.] Can this lengthy process of government coordination be shortened?

[Schamschula] Never. Even the slightest modification must go through the established channels. And this one is a complex draft proposal. Look, we have done everything we could. I believe that one way to avoid coming to an agreement is by setting unreasonable conditions. This is clearly what has happened in this case.

[J. O-V.] What do you expect will happen next?

[Schamschula] They will come to us another day. Otherwise they will have to resign themselves to living with a law that was adopted without their input.

#### Criminal Code Draft Presented to Parliament

92CH0701A Budapest HETI VILAGGAZDASAG  
in Hungarian 6 Jun 92 pp 99-101

[Article by Gergely Fahidi: "Criminal Code Amendments: Criminal Law Reform"]

[Text] General debate over Criminal Code amendments opened last week is only one, but perhaps the most important element of the proposed criminal law reform. If adopted by parliament, kidnapping, the desecration of national symbols, or a threat to endanger the public would become separate criminal acts this fall and subject to more severe sanctions than before, while correctional-educational work would be deleted from among possible punishments.

The Csemegi Kodex represents a revered concept in Hungarian legal history: It had served as the definitive source for the administration of Hungarian criminal justice from the decade that followed the Compromise [1867], until after World War II. The present parliament is not likely to have a chance or the time to deal with legislation of this broad scope, but amendments to the Criminal Code have already been presented to all members of the National Assembly, and proposed changes in criminal procedure and penal enforcement promise this reform measure to make the most significant changes in criminal law since the 1950's.

As university students years ago, young judges involved in the adjudicative process today had learned that in the well-balanced society of socialist Hungary only 120,000 to 150,000 criminal acts had been committed annually over quite a long period of time, and although the number of criminal acts had increased over the years, the growth rate had been relatively slow. In contrast, about half a million criminal acts will be unveiled this year; judging by the statistics of the past year or two, the crime wave is growing extremely fast, it could double in two or three years, and crime could become "Public Enemy No. 1." in Hungary soon thereafter. Experts claim that most West European countries—regarded as examples in other respects—tolerate, and are able to coexist with far larger scale criminal activities than those in Hungary. This, however, serves as little consolation nowadays, when a majority of the people feel increasingly threatened, when prison enterprises are bankrupt (HETI VILAGGAZDASAG 30 May 92), and when stories about the successful rehabilitation of convicts through education can only be found in textbooks, at best.

Criminology professor Jozsef Vigh sees only one solution, one that is relatively well known, but could hardly be applied on a broad base: Holding out the prospect of continuous uplift and gain to the greatest possible segment of society, because, from the standpoint of criminal activities, the character of distribution of material goods, rather than the absolute volume of such goods, serves as the decisive factor. Until this solution can be applied, the only possible solutions are to either decriminalize criminal acts—i.e., "downgrade" certain categories of crime to rules violations, or declare such acts not to be criminal acts at all, as that has already been done with respect to acts that had been viewed as economic crimes from the socialist standpoint before, and to a broad range of political crimes—or reducing criminal sanctions—i.e., introducing alternative methods of punishment, as, e.g., holding persons responsible before society in cases of a lesser weight, instead of presenting such persons to the state's justice administration.

Those who presently codify the Criminal Code of Laws were prompted to do so by the Constitutional Court, as a result of the Court's decision to strike down the death penalty as unconstitutional. The entire penal system had to be reviewed as a result of that decision. While life in prison became the most severe punishment, the working group headed by Deputy State Secretary Karoly Bard also wanted to uphold the principle of making available means other than imprisonment to penal enforcement, by including alternative criminal sanctions in the legislative proposal. As proposed by the group, secondary punishments—such as prohibiting a person from pursuing his occupation or lifting one's drivers license—could be imposed independently relative to criminal acts punishable by not more than three years in prison, i.e., in lieu of imprisonment, and not only in addition to imprisonment. In parallel with a drastic increase in the amount of fines—from the previous 270,000 forints as primary

punishment and 100,000 forints as secondary punishment, to 3.6 million forints and 2 million forints respectively—the proposal also calls for a far broader application of this kind of punishment. Particular repeat offenders who had to be sentenced to serve prison sentences under the present system, could, in the future, be sentenced to pay fines, provided that the criminal acts committed carried alternative sentences of imprisonment or the payment of a fine.

The entire proposal is characterized by judges receiving a broader sentencing latitude and greater discretionary authority than before with respect to several types of crimes. To offset the increased authority of judges, the legislative proposal would increase the maximum sentence regarding several categories of crimes—mainly sex-related crimes—and would render these criminal acts and the related sentences more proportionate. For example, the crime of violating a little girl carries a higher sentence under existing law than violating a little boy. The opposite trend is evolving in many countries: Efforts are being made to render the practices of judges more uniform, thus narrowing the judges' discretionary authority, but in those countries appeals courts are generally not authorized to change sentences pronounced by lower courts. In his arguments supportive of increased discretionary authority, Karoly Bard asserts that Hungarian courts of the second instance would be authorized to reduce or the increase sentences, and states that it would be more appropriate to render judicial practice uniform at the appellate levels.

The proposal calls for fully abandoning the punishments called correctional-educational work, and stringent correctional-educational work. The only remaining sanction similar to these types of punishments would be community work. This punishment occupies a rather prominent place in the draft: The proposal stipulates that community work would be an appropriate sentence for a significant number of crimes of small or medium gravity. Experts, on the other hand, claim that the prominence of community work in the legislative proposal only reflects the framers' optimism: It provides yet another "chance" for work performed in the public interest, a punishment that had previously been imposed in Hungary 20 times per year at most, but one that had worked well mainly in English-speaking countries. Whether this sanction should apply in Hungary only to the free time of an offender—mandatory work performance on the convicts' days off, during weekend rest periods—or if the British example should be followed, thus also providing an educational-reconciliation character to the sanction, is still to be decided. Whether this noble intent would work in Hungary is questionable. Would a villain who busted a village tavern repent as a result of having to beautify the village? Or would a drunk driver who ran down a pedestrian repent as a result of having to care for people injured in accidents?

The framers also propose to discontinue the infamous, so-called "runaround,"—the military penal division. The military tribunal system, as a separate unit within

the administration of justice, has already been abolished; the proposed criminal code reform measures intend to further integrate the military administration of justice with the civilian. For example, only courts would be authorized to render decisions regarding criminal acts according to the proposal, and would remove the military commanders' discretion with respect to filing a complaint about a subordinate, or to adjudging offenses under the commanders' disciplinary authority. The paradox that arises from this proposed provision can be seen in uncertainty about the extent to which this would make the lives of soldiers easier. Karoly Bard argues, however, that the principles of constitutional statehood must strictly be applied even if such application results in increased short-term stringency from the standpoint of those who violate the law.

In addition to changes of a general character, the proposal also deals with specific criminal acts. For example, it treats prostitution in an entirely novel way. See the boxed writing below regarding newly "created" criminal acts. Regarding prostitution, the proposal starts out from a moral value judgment, according to which everyone has a right to freely dispose over his body, and further, that a prostitute is at least as much of a victim of her own circumstances as is a person who commits a crime. Based on the proposal, a prostitute should not be punished at all, on the other hand, any activity that encourages prostitution should be subject to more severe sanctions than today. Hungary, as a signatory to the 1950 Treaty of New York relative to human trade and prostitution, is obligated to observe such rules. Based on the new legal provisions, and in contrast to existing provisions, even the operator of, or a silent partner in a house of prostitution could, in theory, be sentenced to as much as five years in prison.

The proposal pays distinguished attention to violations of personal freedom. For example, if adopted by parliament, an official found guilty of illegally depriving another person of his personal freedom in the course of a proceedings would be punishable by five years in prison instead of the previous three-year incarceration. Taking justice in one's own hands is also becoming the subject of more severe punishment; this crime is committed by persons enforcing just demands, or demands believed to be just, by using force or making threats. The framers also regarded as irrelevant from a legal standpoint whether a kidnapper's claim was just, e.g., whether he attempted to coerce repayment of a debt, alternatively, whether he simply demanded ransom. The maximum punishment for taking justice in one's own hands would be increased from one year in prison to a five year term. The deputy state secretary justified this measure by saying that for quite some time, this crime had not materialized in the form of slapping in the face a neighbor or a drinking partner failing to pay his bill, but instead, had involved the activities of professional "collection gangs" which had ruined the lives of families. Whether this despicable business line in the private administration of justice had evolved as a result of the

bankruptcy of the official administration of justice is yet another question. Anyone trying to collect a debt from a malicious debtor through the courts is looking forward to virtually hopeless proceedings, lasting for years. According to Karoly Bard, however, this circumstance must not serve as an excuse for committing the crime, and the spread of this crime cannot be stopped for now by anything else but the threat of heavier sanctions. After all, "any declaration of criminality represents a certain fiasco, an admission of helplessness," according to the deputy state secretary. By no coincidence, punishment is the "ultima ratio," the ultimate means being used when everything else fails.

[Box, p 100]

### Planning Criminal Acts

The following quotations are from some of the new definitions of crimes.

**Kidnapping:** "Depriving a person of his freedom by force ... or as a result of threats, and conditioning the release of such person by fulfillment of a demand shall be a crime, and shall be punishable by imprisonment of at least two years, but not more than eight years...."

"Kidnapping resulting in: a) a particularly grave disadvantage; or b) death shall be punishable by five to 15 years in prison, or life in prison...."

"The sentence of a kidnapper may be reduced to an unlimited extent if he voluntarily ... ceases the act of kidnapping."

**Abuse of personal data:** "a) The release of special personal data contrary to law; or b) the unauthorized use of such data, or the provision of access for an unauthorized person to such personal data in the course of handling such data, as defined in legal provisions designed to protect personal data, shall be punishable by a prison term not exceeding two years, or by requiring the payment of a fine."

**Desecration of national symbols:** "Anyone using an offensive or demeaning term before the greater public regarding the national anthem, flag or crest of the Hungarian Republic ... shall be punishable by a prison term not exceeding one year, community work or a fine." (Based on the Constitutional Court decision concerning incitement against the public, this provisions would probably be deemed unconstitutional, i.e., a music critic could not be punished for stating that the music of the National Anthem was trashy. The editor.)

**Threat of endangering the public:** "Any person making a false statement suitable to disturb the public peace and prognosticating in a threatening form the oncoming of an event that endangers the public ... shall be punishable by a prison term not exceeding two years, or a fine."

**Copyright violations:** "A person violating the work ... or existing right of the author of a literary, scientific or

artistic creation ... shall be punishable by a prison term not exceeding one year, or by performing community work, or paying a fine."

### **MDF MP Charges Defense Ministry Misspending**

92CH0705A Budapest 168 ORA in Hungarian  
16 Jun 92 pp 6-7

[Interview with Member of Parliament Lajos Horvath by Tamas Frei; place and date not given: "It Began With the Bombing of Barcs; The Ministry of Defense and the French Connection"—first two and last two paragraphs are 168 ORA commentary]

[Excerpt] *For manufacturers and traders everywhere in the world, orders for government procurement belong among the best and safest transactions. In most cases they involve guaranteed deals. In other words, the supplier is certain to get paid, and to earn a profit free of risk. Competition is intense particularly in the market for the products of military industry, and therefore also the temptation is the greatest there. Just what sorts of temptation arise will be evident from an interview that Tamas Frei conducted, in conjunction with a Defense Ministry order worth 1.1 billion forints.*

*The story, in which at least 5.0 billion forints is involved, began late last year, in the evening hours of 27 October, when planes of the Yugoslav Air Force bombed Barcs. Recognizing the shortcomings of Hungary's air defense, a few people then decided that something had to be done. They included Lajos Horvath, a member of Parliament for the MDF [Hungarian Democratic Forum]. He proposed the modernization of at least 20 planes of the Hungarian Air Force, so that they would be capable of engaging the attackers in case of a similar conflict. The only trouble is that the Ministry of Defense has spent on something else the money appropriated for this purpose.*

[passage omitted] [Horvath] Last fall I prepared a study, on the basis of which I proposed a supplementary appropriation of 1.1 billion forints for the Ministry of Defense, to upgrade the electronics equipment of aircraft.

### **They Took Advantage of His Absence**

[Frei] But now it seems that the Ministry of Defense wants to spend it on something else, or not exactly on the same thing for which the National Assembly's Defense Committee approved the 1.1 billion forints, specifically on your proposal. Is that correct?

[Horvath] Yes, except that—according to the original plan—we would have been able to equip between 10 and 20 aircraft with the same kind of computer system that is installed on F-16 fighters. (The number of aircraft is important because approximately that many aircraft would be needed in case of a local conflict similar to the one in Barcs.) The screen of such a computer system displays the pilot's altitude, the direction in which he himself is heading, the enemy plane's altitude, and the

direction in which it is heading. And it also tells the pilot which of his weapons to use. As soon as the pilot fires his weapon, he is able to head for his next target. Such electronics would have been installed on between 10 and 20 of our aircraft.

[Frei] What will happen now, in contrast to the original plan?

[Horvath] The aircraft will remain the way they now are. Instead of modernizing them, the command and control of air defense will become easier. The personnel watching the radar screens at Air Defense Headquarters will be able to easily distinguish enemy aircraft from friendly aircraft in our air space, and to determine which civilian aircraft are flying in which direction, or what they are doing.

[Frei] Is it true that the Ministry of Defense was able to get the Defense Committee's approval to use the money for another purpose, by taking advantage of your absence from Hungary?

[Horvath] Yes.

*There may be two reasons—not disclosed up to now—as to why the Ministry of Defense is spending its supplementary appropriation of 1.1 billion forints on the procurement of land-based radar systems, known by their abbreviation as IFF's [Identification, Friend or Foe], rather than on retrofitting MIG-21's. Let us examine the first of these reasons. Documents that 168 ORA has in its possession lead to the conclusion that the Ministry of Defense does not wish to modernize the MIG-21's because, among other reasons, it is planning to procure American-made F-16's for a huge total. Up to now the ministry has been denying this, and has been citing the country's economic situation in support of its decision. But an internal study conducted within the ministry reveals that even talks have already been held on this matter.*

*In spite of its statements to date, then, the Ministry of Defense is planning to buy F-16 aircraft. Another reason why the money is being spent on something else is that the 1.1 billion forints probably comes handy to the ministry, for the procurement of IFF systems. The Ministry has already issued closed invitations to tender, but it probably has committed mistakes. For one thing, it has failed to disclose to the National Assembly's Defense Committee that there is equipment in Hungary worth 1.0 billion forints, which was purchased at the beginning of 1990 from the then still existing Soviet Union, and which presumably would provide a satisfactory solution to the problem. In addition, it was probably a mistake not to include in the invitation to tender the Hiredastehnika Rt [Telecommunications Equipment Corporation], the only domestic producer of IFF systems. As the company's managers have informed 168 ORA, the company obtained a copy of the invitation to tender only two days ago, at the cost of considerable internal struggle. Thus it is evident that the Defense Ministry had meant to exclude the Hiredastehnika Rt, who knows for what reason. Yet the Hungarian company would be able to deliver such equipment for about a third of what Western*

*European suppliers are charging. Thompson of France, for instance, which has been bombarding the Ministry of Defense with prospectuses since the end of last year. Thompson's tactic appears to have been successful, because the key technical specifications in the invitation to tender are conspicuously similar to the technical parameters of Thompson's equipment.*

**Head of Military Industry Office Interviewed**  
92CH0699A Budapest HETI VILAGGAZDASAG  
in Hungarian 6 June 92 pp 104, 106-107

[Interview with State Secretary Jeno Laszlo by Gergely Fahidi; place and date not given: "Defend Yourself"]

[Text] *There have been a whole series of scandals recently, ranging from the glorious Kalashnikov export affair to the spectacular deep dive performed by the Pest Area Machine Factory, for which the ministries associated with the defense industry have had to exculpate themselves. So no doubt there must have been a few ulterior motives behind the decision last December to establish the Military Industry Office (HH) practically without any concept of what its actual sphere of responsibilities and authority would be. It will probably take quite an effort on the part of State Secretary Jeno Laszlo before his office will be able to serve as a promoter and coordinator of rational decisions and not just as a convenient scapegoat.*

[Fahidi] After a rather lengthy period of silence, on 22 May the government finally announced that HH's tasks would be to coordinate military research and development, weapons manufacturing and trade. Without knowing the budget of this new organization of national authority, however, it is still not entirely clear whether the HH will be a money bag set up to procure military technology, or simply a Pest Area Machine Factory-like syndrome, an organization designed to ward off the charge that "in important matters no one knows anything."

[Laszlo] There is nothing in the statute to suggest that the HH would be a money bag, or that it would serve as a front for the Hungarian Armed Forces or the Ministry of Defense. Our aim is to put into place the technical conditions necessary for the reorganization of the Hungarian national army by ensuring close coordination among industry, trade, and research. Even I am not certain yet what exactly our budget is going to look like, as the figures are still being finalized. Simultaneously with the establishment of the HH, several other ministries will lose some of their jurisdiction, including positions and funding. The Main Department for Military Industry of the Ministry of Industry will be disbanded; the inter-ministry committee on military technology and the authority to review exports and imports of military technology, which currently rest with the Ministry of Foreign Economic Relations, will be moved under our jurisdiction, although the ministry will retain the right of decision making. The entire office will be made up of 30-35 experts, so this year I do not expect to receive more than 50 million forints. The HH itself will not

submit a single military technology-related order either to Hungarian industry, or to foreign suppliers. Under the new division responsibilities, the military will provide us with their exact requirements, stating what they need and what their budget can afford. In turn we will collect all reasonable proposals and, adhering to the principles of market economics, help to select the right product and supplier. The final decision on weapons procurement will stay with the competent ministry. Obviously there will never be enough money in the budget to cover all of our necessary defense expenses, so our other task will be to try to supplement this with moneys earned by way of appropriate economic maneuvers.

[Fahidi] This sounds rather mysterious, in fact it brings to mind FIDESZ [Federation of Young Democrats] representative Tamas Wachsler's one-man campaign in search of mysterious Defense Ministry funds.

[Laszlo] I had only legal, market methods in mind. Temporarily available moneys can be invested to earn interest and turned over, but creative reserves management offers similar possibilities. We must build reserve stockpiles of certain raw materials, but the fact that they are stockpiled should not prevent us from using our titanium and silver reserves as leverage in the marketplace, taking advantage of price fluctuations and thereby augmenting our share of the budget. We will make every effort to explore any resources that may be available to promote the development of Hungarian military technology, and I can assure you that those funds will not be spent on building a new headquarters building for our office.

[Fahidi] Although we still do not have a finalized defense concept in place, in the statute authorizing its establishment the HH is instructed to prepare a military research development and production plan for the short and extended run. Is it not premature to work out the details, when we cannot even be sure about what concept they will need to complement?

[Laszlo] These programs will be submitted to the government and competent ministries as proposals. I feel certain that those details of the defense concept that pertain to military technology will not change in substance. By 1995-96, the introduction of new technologies must be fully implemented throughout the armed forces, and since the time factor is an extremely important one in the development process, by the end of the year the HH, which—as evidenced by the fact that in the cabinet it is overseen not by Minister of Defense Lajos Fur, but by minister without portfolio Erno Pungor—is fully independent of the ministries, is expected to have a plan on the table outlining the technical development of the armed forces. This will impact on the interests of several ministries, hence it will be especially important that we preserve our independence and represent the government and not one ministry or another.

[Fahidi] Your office will have no other function except to coordinate?

[Laszlo] We will be making decisions concerning the management and spending of funds earmarked for research and development working with Erno Pungor, but not in his capacity as minister without portfolio in charge of overseeing us, but as president of the National Committee on Technical Development. Both sides will have full veto rights. We will not be able to make decisions, but our proposals will play a profound role in laying the foundations of our reserve economy. It is totally absurd to stockpile 40-year old ammunition, as it has been done in some places.

[Fahidi] If the part of the defense concept that pertains to military technology is not expected to change then perhaps it would also be possible to determine how much money is needed to implement the tasks outlined therein, specifically to modernize the air force from top to bottom and to set up a rapid deployment corps or division, i.e., a modern army component made up of no more than 10,000-15,000 men.

[Laszlo] this is not yet possible, but by the end of the year we will be able—not only to guess but—to closely approximate the amount required, for by that time we will have assessed and evaluated the technical requirements of our armed forces. Our long-term aim is to procure at least 30 percent of our forces' equipment needs from domestic sources.

[Fahidi] It is hard to determine what military product can be produced more economically in Hungary and which ones are cheaper to import. Won't this policy of protecting our military industries end up costing us too much?

[Laszlo] With a few improvements, the fields of military electronic engineering, vehicle production, and small arms manufacturing, areas with decades of tradition behind them, can become viable industries again, as can the production of high-quality and reasonably priced military uniforms and individual protection gear. These production units, of course, will have to be separated from bankruptcy-threatened enterprises, for it is of no use to have an automobile plant turning out outstanding fire trucks or all terrain vehicles if it is on the verge of bankruptcy and the enterprise as a whole is about to collapse. In such instances, those components which the army needs within reason must be separated and given the opportunity to start anew. Between 1938-59, the defense industry had produced 10 percent of the country's manufacturing output. By 1988, that ratio had dropped to 2.5 percent, and today it is no more than 0.5-1.0 percent of the total, half of which is under liquidation or subject to bankruptcy proceedings. There is, however, a natural selection process underway, and those industries that will stay on their feet will also be worthy of support.

[Fahidi] Are you talking about another Gyor program? For that would take us back to my earlier question: What would all of this cost us?

[Laszlo] No one is talking about another Gyor program; that would be silly even to suggest. The salvageable part of the military industry, i.e., that which is capable of producing things that are in demand and can be sold, would not cost us more than 2-3 billion forints to restructure. The reason why this reorganization would be so relatively inexpensive is precisely because the volume is so small that—for now at least—it cannot even be called a military industry. Of course, the modern network which we are counting on to meet one-third of our defense needs will be a genuine military industry.

[Fahidi] What is the proprietary structure of our "reorganized" military industry expected to be like?

[Laszlo] Initially we should try to maintain at least 51 percent state ownership, but later we need not insist on maintaining that ratio. When we find a suitable investor in a given field, who has an interest in innovation, why should we not allow him to become the future proprietor? The only thing we are concerned about is that the competition might move in to buy up our defense firms furthering its own goals by driving the Hungarians out of the market. Naturally, retaining the state's right of decisionmaking is also in our national security interest, but that could be ensured even without a proprietary majority.

[Fahidi] How about the remaining 70 percent, the import share of the procurement? Will you continue to adhere to last year's concept that half of the purchases should come from eastern, and the other half from Western sources?

[Laszlo] We are completely open in every direction, and I hope also to be able to find reliable eastern partners. There is no urgency to make hasty decisions, for even in the Air Force, our most dilapidated branch, we can forego immediately replacing our entire fleet of aircraft; by upgrading our planes we can postpone that move for another 5-10 years.

[Fahidi] Even given that much time, it will not be easy to come up with the funds necessary to replace 80-100 planes, which according to experts may end up costing us as much as \$2 billion. And that would only cover the modernization of the Air Force.

[Laszlo] This will place a staggering burden on the budget for sure, so I can only repeat that we must do everything we can to find alternate sources of funding to support the development of our military capabilities.

[Fahidi] I have a personal question to ask with respect to the business initiatives you alluded to earlier: The losing bidder in the Pest Area Machine Factory auction has asserted that by virtue of your involvement in private enterprise you also have a business interest in the operation of the HH. Is that true?

[Laszlo] Look, starting in 1972 I headed an engineering office that planned agricultural machines and vehicles, and produced prototypes in a 400 square-meter facility. Initially it belonged to the Kecskemet Agricultural Machines enterprise and was subsequently taken over by Hodgep. Later it was reorganized into a limited partnership, of which I became the manager. Upon being appointed state secretary, I immediately resigned from that post and although I do have a business interest—bought with an "Existence" loan—it is in a venture that has nothing at all to do with flying or the defense industry, unless you want to include the fact that we had planned some of MALEV's [Hungarian Air Transport Enterprise] ground vehicles. Today our firm is still more of a money-using than a money-earning venture, so I would not think that partial ownership in such a business would be incompatible with my position as head of the HH.

### Changes in Foreign Exchange Law Described

92CH0765A Budapest FIGYELO in Hungarian  
25 Jun 92 p 11

[Article by Katalin Bacskai: "Foreign Exchange Law Is Changing"]

[Text] *The domestic interbank foreign exchange market is expected to open on 1 July; until now, this has been hindered by, among other things, the foreign exchange law in effect. This is why the Code of Foreign Exchange (law decree 1974/1) was recently modified. However, only part of the changes apply to the provisions for hard currency applications; other parts deal with the disposition rights of hard currency which is closely connected with the possibility of introducing an interbank foreign exchange market.*

Compulsory exchange (i.e., the offer for sale) of hard currency is a fundamental principle of Hungary's foreign exchange law. Banks were able to use their customers' hard currency—the forint equivalent of which was deposited in the customer's account—for specified hard currency payments. The remaining balance was settled with the MNB [Hungarian National Bank], i.e., surplus hard currency was sold as required or the missing amounts of hard currency needed for payments was purchased. The purpose of last December's changes (the MNB changed to accounting-date exchange quotation and, at the same time, made it possible for those qualified for exchange to enter independent quotations of foreign exchange rates) was, among other things, to eliminate in the actual handling of this trade any difference between the foreign currency and the forint. Banks had not been allowed to trade with each other in hard currency and had had to turn directly to the MNB in every case.

However, the modification of orders that serve controlled central foreign exchange management is one of the indispensable conditions for the introduction of the interbank foreign exchange market. For this reason, the

disposition rights of hard currency will now be changed, banks will be relieved of compulsory exchange, and their carrying of hard currency will be regulated in a different form. For the time being, only domestic financial institutions that are qualified for foreign exchange trade may participate in the foreign exchange market—this is why it is domestic and interbank—i.e., businesses and citizens will still be required to offer their hard currency for sale. From now on, the banks' carrying of hard currency will be regulated, in cooperation with the State Bank Superintendency, by provisions related to open positions. To limit the willingness to assume risks, limitations on open positions are indispensable and, for this reason, related regulations exist generally everywhere, even in countries with well-developed markets and banking systems. The bank, in paying the hard currency's equivalent to its customer but postponing the exchange of the acquired hard currency for a later time, assumes an exchange rate risk. (Taking an exchange rate risk also exists conversely, i.e., in the case where the bank assumes its obligation of a postponed payment of hard currency without having the necessary cover.) The risk includes several elements: the potential change in the forint's exchange rate on the one hand, and the changes in the value of individual hard currencies on the international foreign exchange markets on the other. In accordance with the Hungarian regulation, the banks will be allowed to assume such risks in the future up to 30 percent of their corrected guarantee capital. The banks may balance out the open positions against individual hard currencies during their trade among themselves, but the balance of the entire banking system will end up at the MNB. The rate of exchange on the interbank foreign exchange market will be determined by the rate of exchange at which the MNB will settle this "balance" with the banks. This rate of exchange will be the official (fixed) buying and selling rate determined at noon.

This leads us to the changes in exchange rate quotations. Until now the MNB determined the official rates of exchange in the morning; this time will now be changed to noon. This will make interbank trade possible in the morning. Balances not covered on the foreign exchange market may be submitted to the MNB for payment at the fixed rate. The MNB will implement the requested exchanges—just as before—at a .25-percent profit margin based on the average rate.

For the time being, the method of determining the rate of exchange will not change, i.e., the MNB will continue to calculate the official rates of exchange on the basis of the combined average value of the US dollar and the ECU, changing the forint's rate of exchange according to need. Thus, for the time being, the changes in demand and supply will not directly affect the changes in the exchange rates, for the MNB will, at a given rate of exchange, hinder extreme shifts through constant intervention. We wish to extend the present narrow limits at a pace allowed by our economic possibilities, i.e., in addition to the MNB's points of intervention which will

allow broader limits, the given supply will directly affect the rates of exchange at the foreign exchange market.

The banks may also make transactions on the interbank foreign exchange market at jointly determined rates of exchange, i.e., they may turn to the MNB even during the day, besides the [rate] fixing. Incidentally, the MNB does not wish to actively participate in the foreign exchange market during the day and, for this reason, will quote rates of exchange during the day to inquiring banks only in a limited number of hard currencies and at a wide profit margin. Thus, the Code of Foreign Exchange and several other orders had to be modified in a way that would allow transactions once a day outside the official MNB rates of exchange. This will also make it possible for the banks to freely quote rates of exchange to their customers—but only in cases where they make special agreements. Lacking an agreement, the official rate of exchange must be applied in the accounts.

The coming changes are very important from the aspect of the forint's convertibility. For convertibility cannot be implemented without foreign exchange, money and capital markets that operate in accordance with international norms. The domestic interbank foreign exchange market cannot "be introduced" overnight. In order to develop well-operating spot-sale-markets, first the operating conditions must be created, one of the most important of which is a legal background. However, the necessary technology and infrastructure are not to be underrated either and, thus, no great market activity can be expected initially.

#### Government 'Work Program' Announced

92CH0763A Budapest FIGYELO in Hungarian  
25 Jun 92 pp 1, 5

[Article by -ai with introduction by Gabor Karsai: "Government Work Program; Compromise"]

[Text] Many were prompted to smile when, in the fall of 1987, the newly formed Grosz government developed a work program, and not just a program. The adjective "work" represented the compromise between continuity with previous policies on the one hand, and the need for a turnaround, on the other. The government already had a program responsive to the then prevailing 5-year plan—this program remained unchanged, but a work program could be justified based on then current tasks.

The Antall government, too, has a work program since last week. The program entitled "Stabilization and Convertibility" for the years 1991-94 attributed to Mihaly Kupa continues to remain in force, while the newly developed work program constitutes "a comprehensive system of tasks in the framework of the four-year economic policy program." The compromise is conveyed by the fact that while the raw material for the work program supplied by the Economic Strategy Working Group [GAM] headed by Tamas Szabo talked about "reaching crossroads" and establishing growth conditions that would represent a "turning point," the work program

stresses a requirement for "gradual advancement" commensurate with governmental policies pursued thus far.

Accordingly, at least formally, the Kupa program has also survived this combat, i.e., after enacting the compensation laws, putting off the state household reform measure, and after acknowledging the existence of increased statist endeavors, it has incorporated—and thus rounded off, rendered uncertain, but made somewhat more official—endeavors to stimulate [the economy].

Accordingly, the government's work program has not rendered the economic policy direction clear-cut. Even after editing, the GAM proposals—already analyzed in Nos. 20 and 24, 1992 of this newspaper—do not gel into a clear strategy also supported from the resource side. We have no reason to count on seeing an end of the debate that has been motivated by political approaches as well as personal ambitions.

#### Subtitles From the Government's Work Program

While retaining the priority status of anti-inflationary policies, economic policy supportive of evolution emphasizes the extension and development of institutions by removing economic and legal obstacles that stand in the way of growth. It continues to attribute an unchanged significance to the preservation of economic balance, it does not endeavor to achieve a positive balance of payments at any price, but regards as acceptable a year-end target condition in which the balance of payments deficit does not exceed half the amount of operating capital influx. Beyond activating [resources], the sources of growth are investments by foreigners, the utilization of privatization revenues for purposes of reconstruction, and an efficient utilization mechanism for resources produced by the economy as a result of a budget policy that establishes solid barriers.

The chief areas of advancing economic growth are as follows:

1. Review of the expenditure side of the budget.
2. The more efficient functioning of the financial system, institutional development (the management of bankrupt situations, the settlement of questionable receivables, credit consolidation institutions, the credit guarantee system, a credit information system, mortgage institutions, mortgage loan practices, risk capital companies, investment companies established by "with the participation of" foreigners, the development of interest reduction opportunities, exchange rate, and monetary policy).
3. Industrial and agricultural crisis management, medium-term industrial policy, innovation, agricultural policy.
4. The acceleration of infrastructure development.
5. Development of human resources and technical development.

6. Measures affecting the tax system (reduction of source tax on interests, dual general sales tax rate, more stringent tax accounting and control).

7. Modernization of the banking system, bank privatization.

8. Acceleration of the privatization process.

9. Acceleration of compensation [for damages suffered].

10. Regional development and the management of tensions.

11. The management of social tensions.

12. Coordination of attracting foreign sources and international aid.

13. Social support.

### Privatization: IKM Proposal Reviewed

92CH0802B Budapest HETI VILAGGAZDASAG  
in Hungarian 27 Jun 92 p 84

[Article by Patricia Molnar: "Homework for Extra Credit"]

[Text] Although no privatization functions, and particularly no independent decisionmaking authority were assigned to any specialized ministry—including the Ministry of Industry and Commerce [IKM], the Economic Cabinet had been preoccupied the other day with a privatization strategy developed by IKM experts. The work submitted by the IKM could be regarded as some homework for extra credit, even though the concept originated from the privatization minister, according to a statement at last week's press briefing.

The official logic indicates that it would be easier, and by all means faster, to prepare the privatization of individual branches of industry or firms based on a comprehensive concept, than by having to abide by the State Property Agency's [AVU] schedule, requiring a quick presentation of the needed economic, market and enterprise information for each enterprise. Preparing this strategy was also justified by statements to the effect that short of such auxiliary material one could hardly expect to accomplish the government's intent to reduce the ratio of state property to below 50 percent by 1994.

In reality, however, rapid change of ownership has also been retarded by several other things. For example, protracted proceedings involving firms forced to liquidate themselves have threatened a faster pace of privatization from the outset. Among business organizations subject to IKM authority from the standpoint of their activities, the ratio of enterprises threatened with bankruptcy in the near future is estimated at 40 percent, and experts believe that 20 percent of the cases will end up as liquidation. Enterprises involved in military production, agricultural machinery manufacturers, a significant part

of the light industry, the foundry industry, and even the electronics industry—regarded as one of the lead industries in other parts of the world—are viewed as standing at the brink of the abyss.

According to the IKM report, capacities and workplaces should be preserved in a number of endangered enterprises even if these enterprises had to be sold at prices below the book value of their assets or below the value of their founding capital, in order to avoid bankruptcy or liquidation. In the IKM's view, primarily Hungarian entrepreneurs should be given an opportunity to acquire such property at a low cost. For this reason the IKM wants to develop a preferential loan program—not described in detail—for this purpose.

A Structural Transformation and Privatization Investment Company the IKM has been planning to organize for more than a year would also have as its function the upgrading of state enterprises, thus making these enterprises more saleable. IKM would contribute capital amounting to 10 million ECUs it has received in the form of Phare aid, according to IKM division chief Mrs. Gyorgy Szalai. An additional \$50 million would be needed to render the company operational. The London-based banking firm of Morgan Grenfell & Co. had won the bid to raise this capital. One may conclude on the basis of the somewhat vague descriptions that the the Investment Company (BT) would respond to tender invitations announced by the AVU. The BT would upgrade the primarily small and medium-size processing industry firms (engaged in the manufacture of several products and exporting at least 30 percent of their production) transferred to the BT, and would modernize their technology, change their management then sell the upgraded enterprises. Profits resulting from such transactions would increase the BT's income, and the state would also profit in proportion to its share of capital in the BT.

IKM study devotes a separate chapter to the chances of privatization in various branches and subbranches of industry. It is not easy to establish a uniform principle even within individual fields of specialization, according to the authors, because each firm has its own market, economic policy and strategic consideration. The final conclusion of the IKM, i.e., that there are quite a few business organizations which could be transferred under private ownership as a whole and without any restriction, comes as a virtual miracle.

The IKM would prefer to attract foreign investors for some of these enterprises. One of these branches is the strongly export-oriented (65-70 percent of the production is exported) machine tool industry which finds itself in an unfavorable financial situation and is awaiting capital-intensive technological renewal, and so is the Hungarian communications industry that lags behind the leading edge by between five and 15 years. Similarly, the chemical industry is awaiting strongly capitalized—and consequently, primarily foreign—investors, but even if such demand exists (as in the deal now being

negotiated between Henkel and the Tisza Chemical Combine) it is likely that the firms which grew into vast conglomerates in the course of decades, can only be sold in bits and pieces, per line of business.

The IKM would prefer Hungarian investors only in situations in which individual plants could be transferred into private ownership as a result of the employee stockholder program (MRP) or under the leasing arrangement. These branches of the economy would include commerce, the hospitality industry, part of foreign tourism, the clothing, leather and fur industries, and certain firms manufacturing mass products made of metals.

It is no secret that there will be a large number of firms which the state will insist on owning also in the future, but IKM management did not venture to name these firms. An argument presented by State Secretary Gabor Gulacsi included a new element: The Government must inform the National Assembly of all this, Gulacsi stressed, even though the legislative proposal concerning the State Property Management Corporation [AVRT] provides that the mysterious list of enterprises would have to see the light of day in the framework of a government decree. The IKM presumably states that not a single business organization must be retained under 100 percent state ownership; control in the form of owning 50 percent of the stock plus one share would suffice even in the most severe cases. In conjunction with this matter, conversations between various ministries pertain mostly to energy-related firms (Hungarian Oil Industry Corporation, Hungarian Electrical Works Corporation) and to iron and aluminum base material manufacturing firms.

The already announced privatization tenders also reveal that the state endeavors to retain minority control in the course of privatizing natural gas companies for example, and it pursues this endeavor by intending to retain majority control as a result of combining state and local government ownership. The IKM recommendation that the state retain 25 percent plus one vote control in pharmaceutical manufacturing firms, and in more than a dozen research and development enterprises and institutes can be figured out only from partial sentences uttered casually at the press conference.

#### **Future Credit Guarantee System Described** *92CH0763B Budapest FIGYELO in Hungarian* *25 Jun 92 p 11*

[Article by E. S.: "After the Government's Decision: Credit Guarantee Is Coming and Coming"]

[Text] The concept of establishing a comprehensive credit guarantee system has overcome the first obstacle: A government decision supportive of the idea has been made. Finance Ministry officials have already discussed with commercial banks and entrepreneurs' interest groups the details of how to realize the plan and to operate the system.

In essence, the credit guarantee system designed to support small and medium-size businesses and to accelerate privatization will operate the way we described that in detail a month ago (FIGYELO No. 21, 1992). Accordingly, the government is going to establish a special institution, the Credit Guarantee Corporation, to issue the guarantees; by transferring 2 billion forints of privatization revenues, the government is going to make the largest capital contribution. The Entrepreneurial Development Foundation, interest groups, local governments, and banks are also going to contribute to the corporation's capital.

It so happened, that this was the subject of thorough discussion among Finance Ministry officials and banking professionals. The problem is that the Ministry is not authorized to mandate banks accepting loan applications from entrepreneurs to contribute capital to the Credit Guarantee Corporation, on the other hand, the question is whether it is going to be possible to distinguish between stockholder and nonstockholder financial institutions when they submit applications for guarantees? After all, there certainly will be a difference between these two kinds of financial institutions, because banks joining the corporation as stockholders will reduce their liquid assets, and on top, will be investing capital in a corporation that does not pay dividends. In contrast, banks not joining the corporation as stockholders will be burdened only by current expenses incurred as a result of the issuance of guarantees. No final agreement has been reached in this regard, but every large bank representative said that their banks wanted to become stockholders in the Credit Guarantee Corporation.

The corporation will be authorized to guarantee up to 80 percent of the loans granted by financial institutions. Based on relevant legal and Banking Supervision requirements, loans amounting to a maximum of 12.5 times the amount of basic capital could be guaranteed. In other words, based on the planned level of 4 billion forints in founding capital, the corporation could guarantee loans amounting up to 50 billion forints.

But for whom and for what could the corporation issue guarantees? Commercial banks will grant initial credit approvals, and will forward approved loans to the Credit Guarantee Corporation. The corporation will have authority to further examine the applications in order to ascertain whether an enterprise is truly "worthy of a guarantee." This, of course, raises questions about the superfluous duplication of activities that slows down lending and requires the corporation to maintain an overly bureaucratic staff. Finance Ministry officials, on the other hand, expressed concern that the guarantor could lose control unless a second round of approval was incorporated in the process, and that in the absence of a requirement for a second round of approval, banks would count on the corporation's approval or disapproval and would forward every application without selecting first, (genuine credit rating) to the corporation. The compromise reached by the negotiating parties

called for a dual credit review process and for speeding up the corporation's approval process by establishing standards and criteria which trigger automatic action. Detailed credit evaluation at the second level would be made only in regard to large amounts applied for, or relative to purposes that are risky from the standpoint of lending and guarantees.

The government representative's veto power is also disputed. Seventy percent of the guarantees issued by the corporation are counter-guaranteed by a segregated fund called the Small Enterprise Guarantee Fund in the state household budget; according to bankers it would suffice if this fund would only be authorized to issue counter-guarantees. According to the operational order developed at the Finance Ministry, the government representative should have veto power regarding the most important issues affecting the corporation's functioning, in order to enforce the interests of the segregated fund that provides the counter-guarantee (future capacity, expected risk assessment, etc.). Bankers, on the other hand, assert that granting veto powers to the government representative is inappropriate, and that the management of the corporation must be responsible for its decisions.

Accordingly, the guarantee system is still subject to refinements, and such refinements are needed indeed, but the interests of the government and the banks [already] coincide. In an economy short of capital, operating an assistance mechanism like this is particularly indispensable in order to revitalize the economy by stimulating enterprises. Entrepreneurs are most directly affected by this plan. Just how the entrepreneurs will receive the institution of credit guarantees will be the subject of an article in the near future. One thing is certain however: Entrepreneurs are still not going to be able to engage in enterprising with empty pockets, and there is not going to be a loan structure that does not require one's own resources.

### State Accounting Office on State Indebtedness

#### Highlights of Report

92CH0741A Budapest FIGYELO in Hungarian  
18 Jun 92 p 7

[Article by G. K.: "State Accounting Office Audits the State's Indebtedness; Governmental Strategy Needed"]

[Text] *Seventy-nine percent of the state indebtedness incurred in 1990 was based on governmental or staff decisions, and not on decisions made by parliament. The estimated debt burden on the budget between 1991 and the year 2000—based on the volume of indebtedness existing as of 31 December 1990—may be expected to amount to between 80 billion and 134 billion forints. The following are the highlights of the State Accounting Office's [ASZ] findings.*

ASZ has performed the first retroactive audit since 1945 of the indebtedness of the state budget (state indebtedness) accumulated prior to 31 December 1990. The state's indebtedness is governed by the 1991 Budget Law (Law No

104. of 1990). This law states that the state's indebtedness characteristically consists of three parts: obligations payable to the central bank, the indebtedness created by the devaluation of the forint reflected in book value, and so-called refinancing loans guaranteed by the state, granted by the MNB [Hungarian National Bank] to the State Development Institute [AFI] and its predecessors.

(1) The state budget has had a deficit ever since 1968; the MNB has financed the budget deficit since that year, and for a few years the state has also borrowed funds from the OTP [National Savings Bank]. Between 1969 and 1983, however, only 8.9 percent of the budget deficits had been financed through open borrowing, and the decisive part of the deficit had been recorded in the annual budgets each year as revenues. Accordingly, the publicized amount of deficit did not coincide with reality. When Hungary joined the IMF, the balance sheets of various financial institutions were adjusted to the data reported in the publicly available balance sheet of the MNB. From that point on, both the MNB and the various financial institutions prepared dual, i.e., public and nonpublic balance sheets.

Beginning in 1981, acting on behalf of the state budget, the finance minister obtained credit to finance the actual budget deficits in a manner consistent with law. (Credits received in 1982 and 1983 accounted for in the form of revenues had been used for the partial repayment of earlier credits, i.e., the state's indebtedness had not increased as a result of this). The long-term, deficit-financing credits received by the budget from the MNB amounted to 161.4 billion forints as of 31 December 1991.

(2) The debts incurred by business organizations and assumed by the state are part of the state's indebtedness. Government decisions related to the Lenin Foundry Works, the Ozd Foundry Plants, the Hungarian Aluminum Trust, Tungsram Corporation, the Hajdusag Sugar Mill, Ganz-MAVAG and the Szekszard Meat Industry Enterprise resulted in the state's acceptance of 22.3 billion forints of enterprise indebtedness.

(3) In 1987, the state borrowed 11.5 billion forints from the central bank and issued 9 billion forints worth of state bonds at a ten percent interest rate to provide basic capital for the development of the bi-level banking system, i.e., the establishment of commercial banks and reorganized insurance institutions.

(4) The operating funds of enterprises were settled between 1967 and 1971. The related state indebtedness amounted to 22 billion forints as of 31 December 1990.

(5) Payments made on behalf of the state to increase the basic capital of international financial organizations were recorded in the MNB balance sheet as finance ministry obligations, but these amounts were not included among current expenditures in the budget. This element of the state's indebtedness amounted to 6.1 billion forints as of the end of 1990.

(6) State bonds and treasury certificates issued beginning in 1982 and 1988 respectively also contributed to budget deficit financing. State indebtedness that could be attributed to the issuance of these securities amounted to 32.2 billion forints as of 31 December 1990.

(7) Some World Bank loans were taken out directly by the Hungarian State; except for funds borrowed for the industrial structural adjustment program, these funds were subject to further lending by the state, according to the loan agreements. Some debtor enterprises stand behind these loans. According to World Bank accounts, the indebtedness to the World Bank amounted to \$473 million as of 31 December 1990. The MNB loaned 1.1 billion forints to the Hungarian state from the funds it borrowed.

(8) State indebtedness resulting from intergovernmental loans received by the Hungarian State amounted to 37.4 billion forints on 31 December 1990. Of this amount, 8.4 billion forints represented ruble borrowings, while the rest was received in April 1990 from the ECC, for the exclusive purpose of increasing Hungary's foreign exchange reserves.

(9) Pursuant to Law No. 104. of 1990, credits granted by the MNB to AFI and to its legal predecessor to finance state investments must be treated as state indebtedness, and the state budget is the debtor. The combined total amount of credit accounts managed by AFI amounted to 259.5 billion forints as of 31 December 1990. Only part of the state's demand is backed by assets. Not supported are funds appropriated for investments based on decisions made by the state, such as the Bos [Gobcikovo]-Nagymaros Dam, as well as loans taken out to cover construction expenditures at border-crossing points. The amount of these is 34 billion forints. Loans forgiven to financially bankrupt enterprises also fall in this category. Of these amounts 0.9 billion forints represent forgiven loans in the classical sense of that term, while 3.8 billion forints represent debt conversion.

(10) Law No. 104. of 1990, the law we have mentioned before, provides that the forint value of that part of the country's foreign indebtedness which resulted from the devaluation of the national currency and which appeared as an increase on the MNB books, must be treated as part of the state's indebtedness; this debt has no maturity date, and does not accrue interest. Based on MNB books, the indebtedness created by forint devaluation amounted to 519 billion forints as of 31 December 1990.

(11) Based on interest payable and maturity dates, the state's indebtedness falls into three categories. The first category consists of debts in regard to which the interest payable and the maturity date correspond with the terms contained in the original agreement. Intergovernmental loans, World Bank loans, and bonds and treasury certificates to finance the state's indebtedness are of this nature. The second group includes interest-free indebtedness not subject to repayment, incurred as a result of devaluation. The third category includes in part long-term loans outstanding as of 31 December 1990. These loans bear interest

equaling 40 percent of the prevailing central bank basic interest rate, and the interest to be paid in 1991 had been calculated at 9 percent, according to Law No. 104. of 1990. This law also provides that except for intergovernmental loans and World Bank loans, the state's indebtedness as of 31 December 1990 must be paid off between 1991 and the year 2005, and that 69 percent of these payments begins only after 1996.

\* \* \*

ASZ recommends that the government initiate action to refine and to modernize legal provisions applicable to the size, scope and management of the state's indebtedness. Among other things, a decisionmaking mechanism should be established, which determines at the time the indebtedness is incurred, at what points decisions must be made, thus defining the jurisdiction of the National Assembly and the government. The order in which changes in exchange rates are made relative to indebtedness incurred in foreign exchange must also be provided for. In addition it is necessary for AFI, under the Finance Ministry's supervision, to review its entire volume of receivables as well as changes occurring in this volume, so that the effects of partial repayments, of privatization, and of bankruptcy and liquidation proceedings can be tracked.

Debt service payments that have already existed as of 31 December 1990, and that had been based on legal authorization and affect the budget, significantly narrow the economic policy options. The magnitude of the debt service once again underscores the necessity for the government to develop an appropriate strategy for managing the debt service.

#### Finance Ministry Critique

92CH0741B Budapest FIGYELO in Hungarian  
18 Jun 92 p 7

[Article by Finance Ministry Division Director Dr. Zoltan Bosze: "State Accounting Office Versus Finance Ministry; This Indebtedness Is Different"]

[Text] *The state's book value of indebtedness stemming from official changes in the exchange rate of the forint is not part of the state's indebtedness, but of the indebtedness of the state household, according to the Finance Ministry's division director. The resulting figures present a different picture than what ASZ's [State Accounting Office] or the MNB's [Hungarian National Bank] evaluations indicate.*

Domestic and foreign state indebtedness related to programs authorized in the state budget has increased by about 200 billion forints in 1991.

When speaking of the magnitude of the state's indebtedness or of changes in the volume of state indebtedness, it is inappropriate to confuse such indebtedness with the indebtedness of the state household. [State "household budget": central budget, social security budget, local government budgets and segregated state funds, as compared to the state's entrepreneurial funds in the previous system (i.e. the financing of state enterprises).] Thus, indications as to the 1990 magnitude of "state indebtedness"

amounting to 1,370.3 billion and 1,400 billion forints, as shown in the 15 May issue of NAPI VILAGGASZDASAG, or the 1,750 billion forint indebtedness as of the end of 1991, as shown in NEPSZABADSAG on the same day, as well as an increase in "state indebtedness" of between 300 billion and 350 billion forints in 1991, as that appeared on the same day in KURIR quoting MNB Vice President Sándor Czirjak, represent an impermissible, grandiose approach unless light is shed to the internal content of such indebtedness.

Last year, domestic indebtedness has increased by almost 125 billion forints due to credit and securities transactions performed in order to finance the budget deficit. This amount was reduced by more than 23 billion forints representing budgeted funds to pay obligations as they became due, and by 10.5 billion forints in privatization revenues used to reduce the state's indebtedness. A 40 billion forint credit granted by the MNB, as authorized by Law No. 104. of 1990, to establish a revolving fund for the secure financing of the budget has also increased the state's domestic indebtedness.

The approximate increase of 61 billion forints in foreign indebtedness was prompted by continued direct state borrowings from the World Bank, and by intergovernmental loans granted to Hungary by the EC and by the Group of 24 countries.

The indebtedness shown in books, and derived on the basis of the forint value of the country's foreign indebtedness has an entirely different economic composition than the state's domestic and foreign indebtedness, and has increased in 1991 by only 260 billion forints. The forint has been devalued several times last year, and the combined total devaluation is significant. The change in this element of the indebtedness resulted in a 60 percent increase of the total incremental indebtedness of the state household in 1991!

The indebtedness of the state household subsystems outside the budget has been reduced somewhat. Most of this reduction may be credited to the fact that the social security system has repaid its liquidity loan to the MNB. This repayment had been enabled by the fact that in late

1991 the state had used privatization funds to settle most (12 billion forints) of its 14.7 billion forint indebtedness incurred as a result of family supplements payable, covered by the social security system, as authorized by Law No. 104. of 1991.

In the framework of the historical process presented ASZ underscored the fact that the accumulated state indebtedness was, to a large part, a result of increased indebtedness composed of borrowings accounted for as budget revenues prior to 1982. Indeed, the National Assembly was not informed in so many words about the magnitude of these loans, and thus the budget deficit the National Assembly had approved had not been consistent with reality. But in the budget laws and final accounting laws of the given years reference had been made to the fact that some of the revenues resulted from credit transactions. At the same time, the magnitude of these decisions had, at all times, been determined by governmental decisions. Accordingly, what we read in ASZ' detailed analysis, i.e., that this matter had been subject to staff decisions and that it had been an internal affair of the Ministry of Finance and the MNB is not true.

The ASZ report includes a statement according to which that part of the state indebtedness which must be financed by the state budget will increase from an 84 billion forint level in 1991 to above the 130 billion forint level by the middle 1990's. In this regard the increased repayment obligations are of a definitive character.

In examining the state's indebtedness the Finance Ministry has pointed out a number of times that these calculations are of a static character because they automatically project present conditions into the future. Quite naturally, the management of the rather large burden related to state indebtedness deserves constant attention. At the same time, a large part of these burdens materialize in the form of interest. The already slower inflation rate, expected to continue to slow down as a result of government endeavors, should also reduce the level of interest rates. These two factors fundamentally influence both the general condition of future budgets, as well as the absolute and relative weight of the burden produced by debt service payments. Accordingly, debt management must not be dealt with in isolation from debt service.

**The Year-End Composition of the State Household Indebtedness According to Categories Established by Law, in 1990 and 1991 (in billions of forints)**

Designation	End of December 1990 Volume of Indebtedness	End of December 1991 Volume of Indebtedness
State indebtedness, domestic	789.7*	932.2*
State indebtedness, foreign	61.4*	122.1*
Total state indebtedness	851.1*	1,054.3*
Book value of indebtedness stemming from official changes in the forint's exchange rate	519.2*	777.9*
Indebtedness of organs funded by the central budget, social security, segregated state funds, local governments and institutions	47.6	43.3
Total state household indebtedness	1,417.9	1,875.5

\* Data confirmed by ASZ audit.

**Changing Status of Cooperative Farms Described**  
*92CH0666B Budapest in Hungarian 11 Jun 92 p 25*

[Article by Tibor Nagy-Huszein: "Land Ownership and Land Use; Quietly Parting Ways..."]

[Text] The political battles that have flared up around the issue of land ownership give the impression that this were the area where private ownership had suffered the greatest blow. In fact a greater percentage of land has been left in private hands than any other type of property as evidenced by the fact that at the time of the system change 36 percent of the arable land was privately owned.

Indisputably, when the agricultural cooperatives were first organized, many violations were committed against the principle of voluntarism; still the fact is that the Hungarian cooperatives have had very little in common with the standard kolkhoz types.

The organization of cooperatives was not accompanied by nationalization of all arable lands. Those who joined or were forced to join the cooperative retained their rights of ownership of the land. This is a fact, even though those affected may have felt that the land turned over to collective use had been taken away from them. The collective, in reality, "only" acquired user's rights to, but not ownership of the land.

**Not Abruptly**

Before the end of 1968, the concept of collective cooperative ownership had been essentially unknown. Law No. IV/1967 established the institution referred to as mandatory land redemption, which went into effect on 1 January 1969. Subsequently, the government ordered the mandatory redemption of all landed property belonging to individuals who:

- Were not members of a producers cooperative at the time the law went into effect;
- quit the producers cooperative after the law had been put into effect; or
- as noncooperative members were in line to inherit the land of a deceased member. The bottom line, therefore, is that the lands that were redeemed and thus put into collective ownership in this manner belonged to individuals who had left agriculture. This is particularly important to keep in mind for two reasons.

First of all, when we talk about compensation—assuming that indirectly or directly it is designed to encourage reprivatization—we are not talking about returning or placing the land into the hands of those who actually farm it, or presumably intend to farm it.

This is especially important to keep in mind because nearly 90 percent of the land-ownership related grievances that come under what is known as Compensation Law No. 1, have to do with this previous mandatory redemption policy.

The other consideration is that the whole idea behind the institution of collective land ownership and the introduction of mandatory redemption has been to reestablish the integral relationship between ownership and use that has been deteriorating as a result of people leaving agriculture, and thereby to help eliminate the institution of absolute land rents and maintain food prices at a low level.

These considerations cannot be ignored in charting the course of today's land reforms and in assessing the potential effects of those reforms.

In Hungary today, agricultural producers prices are relatively low. At the same time we have an oversupply of agricultural goods. It naturally follows, therefore, that the absolute land rent cannot be rapidly incorporated into the price of goods. The resulting increase in costs and prices would not be recognized either by or domestic, or our export markets. This would suggest that the only rational kind of land reform would be one that does not attempt to abruptly separate land ownership from use.

Thirty-six percent of all cooperative-controlled lands are still owned by individual members, but more than 80 percent of these owners are older nonactive individuals.

**Leasing**

Cooperative-owned lands—which constitute 60 percent of all land holdings—are to be privatized partly by way of cooperative property assignments, or through compensation auctions. Lands used by the cooperatives but owned by the state, which amount to about 3 percent of the total, will either be returned into private hands as compensation or placed in the ownership of local governments.

About 55 percent of the members to be assigned landed property are elderly and inactive. Of those entitled to compensation vouchers and thereby to obtaining land more than 90 percent are elderly; moreover—because of the reasons outlined above—they are definitely people who no longer take part in agricultural production.

It follows from all of this that at least three-quarters of the 5.6 million hectares of land currently under cooperative control will be transferred into the hands of people who are unlikely to want to farm the land themselves, and therefore, plan to lease it to someone else.

If following the transformation of the cooperatives the members and compensation buyers opted to leave their land in the cooperative then, at least in the legal sense, this would likely lead to a greater separation between owners and users.

The reform has not left a single foot of ground in cooperative hands, except in cases where landowner members have voluntarily donated their holdings to the cooperatives, which is not disallowed by the new cooperative law. Political propaganda and public sentiments, however, have not affected this process favorably.

Land reform carried out in this manner will—beyond effecting a new demand for absolute land rents—also have additional consequences. In all likelihood, the market will not accept an abrupt appearance of land rents and lease charges. The owner himself will not be able—and in most cases will not want—to farm the land on his own. He will also not be able to lease it out or collect more than a minimal fee for it. So what can he do? He will try to get rid of the land. This, in turn, will only lead to more problems. First of all, it is unclear how long it will take for the land offices to complete entering the changes resulting from the reform into the land registries. Moreover, there is still no land law on the books to regulate the land market.

Nor is it inconceivable that in the wake of the reform we will see a rapid and significant concentration of land in the hands of a few, that may possibly lead to the emergence of a new system of large estates.

#### Insolvent Farms

A drastic separation between owners and users will also have a serious impact on agriculture's ability to obtain financing.

In previous years—particularly in 1991—enormous amounts of capital were withdrawn from agriculture, partly to finance the budget, but as a result of the alarming widening of the gap between agricultural and industrial prices, also to support other branches. (Compared with past years, in 1991 the price index of agricultural input was 145 percent, while the output stood at 99 percent; the resulting “deterioration in the balance of trade” was 80-90 billion forints.)

At the same time the law makers have imposed a moratorium to block cooperatives from selling off capital assets, and especially land and real estate. So the withdrawal of capital has essentially meant a withdrawal of working capital. Self-financing in the agricultural sector has become virtually impossible, to the point where even financing ongoing production requires foreign resources. The weak revenue-earning position and liquidation status of agriculture have made farms insolvent.

The land reform process also makes it practically impossible for producers to use property as collateral for

obtaining credit. This situation alone may start an avalanche of bankruptcies and liquidation procedures and jeopardize altogether the continuation of production for the balance of the year.

In the longer run it is difficult to see how we can attract credits that could be tailored to agriculture's particular needs without a well-established and functioning land credit system. Efforts, in fact, are already under way to come up with such a system. It must be recognized, however, that unless the agricultural entrepreneur also the owner of the land he farms land mortgage credits simply will not work. This is the point on which the government's agricultural concept strikes one as being the least carefully thought out.

#### Analysis, Lessons of Real Estate Bank Failure

92CH0742B Budapest FIGYELO in Hungarian  
18 Jun 92 p 9

[Article by K.: “Let the Bank Supervision Suspend It”]

[Text] The closing of the first Hungarian bank, the Ingatlanbank [Real Estate Bank] has not shaken the Hungarian financial world, but financial institutions should consider the lessons to be learned. Mrs. Kovari, Dr. Klara Csoor, the deputy chairwoman of the State Banking Supervision analyzed the banking risks and the likelihood of rescinding the permits of additional financial institutions.

In Ingatlanbank's case the risk presented by highly concentrating the assets in a single market—the real estate market, the resulting high level of expenditures as compared to returns, and, from the standpoint of liquidity, the unmanageable structure of assets and sources had caused the restriction of activities of this financial institution last August, and the rescinding of its permit on 31 May 1992. One should keep in mind the fact that the permit had been revoked by the Banking Supervision after the stock corporation provided a final accounting, and after the satisfaction, or after having well-founded expectations to satisfy a majority of the bank's obligations.

The likelihood of further, similar incidents is influenced by the fact that the financial institutional system is in a period of transition, because institutions of a banking character are developing into modern financial institutions only now, and the legal setting for banking operations is in the process of evolving. Nevertheless, foresight by members of the financial institutional system is made more difficult by the fact that their borrowers are not obligated to consolidate their balance sheets for now, and thus, lending banks are unable to tell in advance whether they are facing a single firm or an entire group of firms, or even if they are aware of that, they are unfamiliar with the total, combined condition of the related members of the group. Thus, in addition to the high risks involved in the real estate market characteristic of Ingatlanbank's operations, many other demonstrable risks

may be included in the financial statements of banks, which can only be recognized on the basis of combined data.

Concentrated risks present a threat because an event that affects any given outside market, group of borrowers, etc. could cause the sudden loss of a financial institution's ability to collect installment payments from a majority of its debtors, and the loss of the financial institution's ability to sell most of its assets (real estate).

An excessively high risk of not being able to maintain liquidity had also been characteristic of Ingatlanbank's operations. The bank had financed its real estate purchases and long-term investments from short-term or medium-term sources. In terms of this strategy, the risk had been presented not by the credit worthiness of the debtors, but by significant differences in the time periods in which sources and outplacements matured.

Clients, on the other hand, do not wait with their demands, i.e., a bank must have sufficient liquidity reserves to satisfy the demands of its depositors, and to be able to wait for favorable market conditions.

Banks are required to submit by the end of July to the Banking Supervision drafts of internal rules that streamline maturity dates. A financial institution may deviate from full consistency between maturity dates only if its volume of short-term sources had not changed in the past, and only if those are not expected to change in the future as a result of the changing situations of its depositors. Accordingly, Banking Supervision is not going to object if a bank can show, for example, that it is going to be able to make secure, longer than one year outplacements of 40 percent of its sources maturing in one year, but it will ask for the results of the audit that supports the bank's decision, and it is not going to assume the bank's responsibility insofar as its depositors are concerned, of course. Accordingly, rules provided by the Banking Supervision must not substitute the role played by the inter-bank money market in the banks' management of their own liquidity, but instead, these rules must play an important, supplemental role in the daily support of managing terms of maturity.

Banking Supervision initiated the Ingatlanbank audit because of its excessively concentrated portfolio, its lack of an appropriate volume of capital and reserves, and liquidity that had been at risk. The result of this audit was that Banking Supervision revoked Ingatlanbank's permit. Henceforth the bank may be engaged only in activities involving the sale of its real property assets. It can no longer issue real estate certificates of deposit, and it must provide for the continuous re-purchase of its outstanding volume of assets. Ingatlanbank will be able to do so because a few financial institutions established for this purpose a voluntary fund to protect deposits. Accordingly, as a result of long work and significant efforts, Ingatlanbank went out of business not as a result of liquidation, but by providing a final accounting.

Accordingly, a bank has ceased to exist, and the corporation had changed into the Real Estate Portfolio Stock Corporation.

The case of Ingatlanbank well demonstrates the shortcomings characteristic of the banking system and the excessive increase in the number of organizations active in the banking system. There is an ever-increasing number of financial institutions, but the scope of banking services is not expanding at a rate consistent with the increased number of financial institutions. Some banks—the ones which concentrate on a higher risk clientele—must increase their capital and reserves; if unable to do so they must narrow their scope of activities. Others—whose scope of activities is more conservative, must deal only with a moderate uncertainty factor. A more even distribution of risks would increase the stability of the banking system as a whole, but paralleling this, risks not covered by reserves would also have to be reduced. Accordingly, reserve accumulation also serves as a condition for the appropriate functioning of the banking system, and for better service to be provided to clients. In the future, rules issued by the Banking Supervision are supposed to protect financial institutions from excessive market risks and from agreeing to risk liquidity. Some of the risks, however, are related to the peculiar features of the way the Hungarian economy evolves and the market develops. Restraining Hungarian financial institutions from accepting this risk would be tantamount to restricting their basic function of resource allocation. Downscaling the already existing risks involves a lengthy process and requires a large volume of reserves. Only rules governing secure banking and secure resources can reduce the likelihood of rescinding permits from financial institutions, or of liquidating financial institutions.

#### **Government May Close Economic Research Institute**

*92CH0742D Budapest HETI VILAGGAZDASAG  
in Hungarian 18 Jun 92 p 16*

[Unattributed article: "Economic Research Institute To Be Liquidated"]

[Text] The days of the Economic Research Institute [GKI] have probably been counted: Rumors are that the government is going to decide this week to discontinue the institution that traditionally has been engaged in making business cycle projections, performing enterprise conduct audits and preparing the background for economic decision-making. Gyorgy Vukovich, chairman of the Central Statistical Office [KSH] which oversees the GKI is expected to propose the death sentence over the state-owned intellectual workshop employing 28 people, including 15 researchers, established just a few months short of a quarter of a century ago. As mandated by the 1992 state budget law, in "reviewing and defining by 30 June 1992 the basic functions of organizations funded by the state budget and under his jurisdiction, as well as the

scope of the entrepreneurial activities of these organizations" Vukovich found that once the pending new law on statistics is adopted, "the data recorded by the national statistical system must be made accessible to everyone, and thus it is inappropriate to maintain an institution which acts like a privileged user of data." The KSH chairman believes that by using part of the funds to sustain the GKI—12 million forints this year—the scientific work that had been performed thus far by the Institute could be performed within the KSH. Without providing further justification, the KSH chairman states that "this would also guarantee the independence of research."

The GKI could possibly revive as a business organization after the government's decision: In recent years a larger part of the Institute's revenues originated from private ["market"] orders, such as banks, enterprises, business associations and foreigners like the EC. On this basis the Institute has recently begun preparations to transform itself into a stock corporation; the KSH, which is now recommending the liquidation of the Institute, would have participated in the venture to a 20 percent extent, [according to original plans]. GKI officials hope to be able to establish an enterprise together with their major customers, an organization that would obtain all its funding from the marketplace, and would continue unchanged, performing scientific macroeconomic research even after the possible government decision.

The history of the Financial Research Corporation may serve as a pattern for changing the form of operations. The predecessor of this scientific and business advisory enterprise has functioned as a background institution for the Finance Ministry. It had been discontinued by then Finance Minister Peter Medgyessy in 1987 (HVG 20 June, 10 October 1987). The institution that had employed 18 researchers and 23 other employees, and had operated with an annual budget of 8 million forints had been abolished in those days as part of a campaign to liquidate ministerial background institutions, and its abolition had been justified by considerations of thrift in the administration of the budget. The Financial Research Institute was known as the center for economic reform thinking in Hungary (it performed the lion share of preparing a study entitled "Turnaround and Reform" regarded as the catalyst for the system change at the time). The campaign of 1987 had lost steam after abolishing the Financial Research Institute; at present, no other rumors exist regarding the "streamlining" of an institution funded by the state budget, other than the GKI.

#### **'Uncertainty' Surrounds New Medical Care System**

92CH0700B Budapest HETI VILAGGAZDASAG  
in Hungarian 13 Jun 92 pp 109-110

[Unattributed article: "The Family Physician Service; A System's Test"]

[Text] *The days of the panel physician are numbered. As of 1 July, he will advance to family physician. Despite the approaching date, there is much uncertainty among the general public, and in health care circles as well, about how the new system will work.*

There is an extraordinary amount of misinformation about family physicians, even though medical insurance cards have already been mailed out to an overwhelming majority of insured persons; and in recent weeks it has even been possible to enroll with the selected family physicians, by presenting the cards to them. Moreover, family physicians will soon be getting their first salaries based on performance, in accordance with the number of cards [card sections] they retained from enrolled patients by 15 May. As we have been informed by the National Main Administration of Social Insurance (OTF), the problem begins with the fact that about 30 to 40 percent of the cards mailed out were issued incorrectly. The mistakes—attributed to the population registry—include, for instance, mailing medical-insurance cards to persons who died years ago, and sending two cards to some retired persons, but none to others. Incorrect personal identification numbers are also common.

In the case of economically active persons and their dependents, the issuance of new medical insurance cards to replace the ones containing errors (or the issuance of a card where none has been received) is the task of the employer, organization or institution that otherwise has to validate the cards. Employees, for instance, must turn with such problems to their employer; private entrepreneurs, to the social insurance administration concerned or to its branch office; and persons receiving unemployment benefits, to their labor exchange. For new medical-insurance cards to replace the ones containing errors, retired persons and their dependents must apply (by mail or in person) to the directorate that disburses the pensions. The card is replaced or issued free of charge.

From 1 July on, a patient will be able to visit his family physician solely on the basis of a validated medical-insurance card. The card may be presented for enrollment even if the patient does not need to consult the physician, but that is not mandatory. It is sufficient to present the card when the patient has to see the physician anyhow. Validation attests to the medical insurance coverage of the card's holder. The employer, labor exchange, social insurance administration, or municipality validates the cards. Retired persons and their dependents do not need to have their cards validated. They—unlike persons of work age and their dependents—are issued cards that are prevalidated. The unemployed who are not receiving unemployment benefits through no fault of their own—for example, because they have exhausted the 18 months during which they may "cooperate" with the labor exchange—and their dependents continue to qualify for free care from the family physician service and other providers. The social insurance administration validates their medical insurance cards, on the basis of a certificate from the labor exchange.

Although in May the OTF was still encouraging the practice, it is now having second thoughts and is not very pleased that some employers were eager beavers and validated their employees' medical insurance cards already before 1 July. Namely, the statutory regulations governing the system of health care based on medical insurance will go into effect only then. In the given case it is not possible to determine whether the holder of the medical insurance card validated on 1 May is still employed, and hence actually covered by medical insurance, on 1 July. The card remains valid for 90 days after the termination of insurance coverage. In the case of cards validated before 1 July, however, the problem arises that the employer may have "forgotten" to enter the termination of coverage on the card, and thus it will remain valid even after the expiration of the 90 days.

Insured persons will continue to receive free care from their family physician, as well as other health care free of charge—except when copayments are required—and will be able to obtain assistance to cover the costs of medication. The citizen on sick pay, for instance, is entitled to these medical benefits even when his medical insurance coverage ceases because, say, his place of employment has been liquidated. In the same manner, the recipients of sick pay due to accidents, and of maternity or childcare benefits respectively, are likewise entitled to free health care.

On the basis of the medical insurance card, it is possible to enroll with a family physician, or with a pediatrician in the case of a minor. To facilitate a choice, the municipalities must post for public display the medical districts, and the names and qualifications of the family physicians providing basic medical care. The former panel physicians, and the doctors with whom the municipalities or the social insurance system conclude contracts, may become family physicians. Furthermore, also the doctors who on 15 April 1992 were employed as plant physicians. Specialists in pediatrics may be selected as family pediatricians.

The selected family physician certifies the enrollment by filling in the appropriate blanks on the medical insurance card. The family physician may refuse to accept a patient for enrollment, but he must be able to provide a

very good reason for doing so if the person wishing to enroll is living in the physician's area or district. We have been told at the OTF that a deterioration of the doctor-patient relationship—for example, if the physician and the patient are already suing each other—is sufficient reason for refusing to accept a patient for enrollment.

There is time enough to select a family physician when a person becomes ill, requires medical attention or needs a certificate of his inability to work in order to claim sick pay. A patient may be enrolled only with one family physician at a time, but may change family physician once a year, without having to give his reason for doing so. (More frequent changes must be justified.) The change must first be cleared with the new family physician, because it is not certain that he will be able to accept the patient for enrollment (if, for instance, the patient does not live in the physician's area or district). If everything is in order, the new family physician—with the patient's written consent—requests the former physician to send him the doctor's section of the patient's medical insurance card, together with the patient's medical history and summary medical chart. The municipal or district health officer of the patient's permanent residence decides possible disputes (for instance, when the Obuda family physician refuses to enroll an Angyal-fold patient).

The duties of the family physician include giving medical advice, performing screenings, checkups, and physical examinations, providing treatment, and prescribing medication. Family physicians see their patients mainly in their offices, during regular office hours, but may also make house calls. Separate standby, weekend, central duty, and emergency services may be organized for urgent care. Only a doctor who meets the statutory requirements for family physicians may substitute for a family physician during his vacation or illness. The municipality provides for the substitution of the family physician whom it employs. The family doctor who is not under obligation to serve his area or district—and who is under contract with the OTF—must provide for his own substitution and must pay the substitute's honorarium out of his own pocket.

**Jaruzelski Book on Martial Law 'Disappointment'**

92EP0503A Poznan WPROST in Polish  
No 23, 7 Jun 92 p 65

[Article by Boguslaw Mazur: "The General's Dilemmas"]

[Text] "Sensational photographs! Unknown facts!" That is how Wojciech Jaruzelski's book *Why Martial Law* has been advertised. In the meantime, its content is disappointing.

There is not one new, significant fact that could explain the reasons for the implementation of martial law. Jaruzelski's memoirs are rather a polemic with his adversaries, as well as an attempt to sketch the psychological state of mind and political mechanisms in the framework of which the then-state leadership operated. That is probably why the book contains so many descriptions and threats of invasion, as well as so much self-indulgence with regard to his own dilemmas. Jaruzelski has been charged that all too often he surrenders to sentimentalism and pomposity. It is true to some extent, although for him "the most important thing is the judgment of the Polish mothers. Their sons did return home." One has to remember that these are the words of a man whose televised speech made millions of Poles numb eleven years ago. In those days, thousands of people in the West restocked their nuclear shelters.... Jaruzelski tries to get closer to the reader and earn the respect of future generations when he writes about his "desperate thoughts" which many times made him put his hand on "the cold grip of his pistol," or when he describes a secret meeting with Andropov in Brest, prior to which he had asked his coworkers to take care of his family "in case of complications" with his return.

In presenting his vision of history, Jaruzelski admits that the system which he participated in building was a mistake, and that there were many nonsensical phenomena and "absurdist" decisions for which he was to blame. At the same time, however, he admits that martial law was designed not only to protect Poland from a foreign invasion but from a change of the system, which, Jaruzelski believed, could be reformed.

The book's stronger points are the author's portraits of other politicians, for example his characterization of Brezhnev or his recollection of a pro-Soviet paper written by Leszek Moczulski. In addition, sarcasm shows up from time to time (Husak was extremely disgusted when Gierek, who was bursting with a good mood, suggested that they establish a federation with Warsaw as a capital....).

All in all, Jaruzelski's book is a disappointment. The reason for that is not so much his attempt to wash out the responsibility for martial law—it may be irritating but it can also be argued against—as the fact that he has left many questions unanswered. For example, the general neither rejects the charge that the December 13, decision was illegal (it was made when the Sejm was in session),

nor explains whether the Solidarity activists' pronouncements in Radom, broadcasted later by radio, were doctored and by whom.

*Why Martial Law* does not end the discussion. The generals's private indecisions do not contribute much to it.

**Regional Press's Apolitical Character Presented**

92EP0536B Warsaw RZECZPOSPOLITA in Polish  
15 Jun 92 p 4

[Article by Anna Paciorek: "The Local Press or Terra Incognita"]

[Text] Censorship provided the benefit that every potential press publisher had to get its agreement to publish a paper. Thus, the number of newspapers on the market was known. Now no one keeps such statistics. The largest publisher, Ruch, no longer has a monopoly and is no longer a reliable source of information—some new newspapers had not even managed to enter the subscription system before they collapsed; others, especially local papers, are distributed outside the Ruch network. The Krakow Center for Press Studies has the most accurate data. In its catalogue at the end of March 1992, there were 2,112 periodicals published in Poland, including 700 so-called sub-local ones, which appear only in one or a few gminas.

One would look in vain for copies of the papers in the National Library. Danuta Sulejewska, a director at the Institute for Supplementation of the National Library, complains: "It is necessary to write to each paper and ask them to send a required copy. If one letter or one phone call was enough for each title that would be good. But our group is small, and we do not even have a computer. In our bibliography of periodical publications, there are at most 30 titles on the local press. Recently, we received a gift from a library of about 150 titles. And that is all."

At the Warsaw University Institute for the Recent History of Journalism of the Department of Journalism and Press Studies, only a few copies of particular publications are being gathered. The local press is scouted according to the employees' places of residence. Thus, there are reasonably accurate reports on the Lublin, Rzeszow, or Katowice regions. The institute is also preparing a collection of papers from two conferences on the transformation of the Polish press. Perhaps in the fall when the collection appears, our press market will no longer be a blank page. Nevertheless, we will still know the least about the local press, or, as journalism scholars put it, the "sub-local," gmina press.

In the Kielce region, for example, 16 new local-government titles have been created since 1990. Of 79 gminas, there is a local newspaper in 25. (That data is from the Jolanta Adamska-Czerw paper, "The Local-Government Press in the Kielce Region," prepared for the conference on the transformation of the press and

organized by the Institute of Journalism.) The author says that frequently the publishers are the gmina bodies, and the editorial staffs consist of local-government employees. The papers appear thanks to social funds. There have even been attempts to publish on a volunteer basis. For example, in Morawic Gmina Henryk Wojtys has been publishing the monthly BRZEZINA since March 1990 with the help of young people without a typewriter or editorial offices!

Some local government papers, for example, AKTUALNOSCI RADOSZYCKIE and the Starachowice NOWE are transformations of papers of Solidarity Citizens' Committees. In Skarzysk-Kamienna, the Mesko Metal Plant newspaper, NASZE SLOWO, became the local government's paper.

Dr. Sylwester Dziki of the Jagiellonian University Institute of Political Studies, Center for Press Studies says that in Krakow the vast majority of all the titles of the sublocal press are being collected. Most of them are published in the Pomorze, Poznan, and Gorny Slask regions.

Among the publishers, boards of cities and gminas predominate. A second group consists of papers published by societies of friends of various cities or regions. There is a third, relatively small group of private publishers of small papers, oriented mostly toward advertising. There are also factory or school papers, which the Krakow center does not register.

As to the political orientation of the local press, it usually openly declares its apolitical character, although a significant number of them were created by transforming the bulletins of the Citizens' Committees. A few are organs of the gmina units of political organizations.

In S. Dziki's opinion, the local press in terms of qualifications is an "amateur," with the exception of the papers of the various societies, which are of high substantive quality.

According to S. Dziki, among the most attractive are the GAZETA WITKOWSKA, which is printed in color, published in Witkow near Poznan, NASZA GAZETA from Dobczyce, ZIEMIA KRZESZOWICKA, GAZETA USTRONSKA, and GAZETA TCZEWSKA.

Usually the papers are information bulletins with some kind of journalistic supplement. They cost 3,000 to 5,000 zloty (Z), which, given their low production costs, guarantees their financial stability.

In January 1992, the Association for the Local Press was founded. Currently, it has 142 members who publish 97 titles. Krystyna Sorbian-Goral, the association president, is also the editor-in-chief of GAZETA PUSZCZYKOWSKA. In Puszczykow near Poznan, there are two papers. The GAZETA, a socio-cultural monthly of 16-20 pages that costs Z2,500, and the ECHO PUSZCZYKOWA, distributed free, which is the information bulletin of the local council and the city board.

During a training seminar organized by the National Institute for the Study of Local Self-Governments in September 1991, editors of the local press talked about the need for an association. An attempt to organize around the self-government weekly WSPOLNOTA failed, and the editors and publishers of the local papers decided to form an association themselves. In the opinion of Krystyna Sorbian-Goral, their greatest problem is financial. Thus, the Local Press Association (SPL) is planning enterprises to permit the creation of technical resources for several neighboring papers in order to reduce costs. For example, Pomorski Publishers, who publish six local weeklies, including GAZETA KARTUSKA, GAZETA TCZEWSKA, and TYGODNIK SOPOT, is already in operation. The association also intends to protect the interests of the member editorial staffs caught in various kinds of difficulties (journalistic independence can be even more difficult to defend in a local title than in a national paper). Among the employees of local papers are, for example, library employees, teachers, and some volunteers. However, many of them dream of becoming professionals.

K. Sorbian-Goral judges that at present there are significantly fewer than the 700 local-press titles given by S. Dziki. Since their development in 1990, many of the papers have collapsed or suspended publication. Among the members of the association are publishers and editors of the local press from all over Poland. Usually, they are biweeklies or monthlies, although there are also weeklies, for example, GAZETA JAROCINSKA, which has a press run of 10,500.

"We will work in regional centers, created from below," says K. Sorbian-Goral. "We already have a center in Wielkopolska; soon there will be centers in Central Pomorze and in Malopolska. We want to attempt to pay for the association by forming advertising agencies. The Batory Foundation is helping us with training journalists."

Some of the local papers have modern equipment, and are able to computerize their layouts; others must reduce them on photocopiers. Sylwester Dziki says duplication cannot be avoided in this market. Papers will combine, and there will be leading editorial staffs that publish a version for particular gminas as has happened, for example, in the FRG.

#### Survey of Private Sector Reveals Special Needs 92P20345A

[Editorial Report] The 5 Jul 92 No. 27 issue of the Warsaw weekly ZYCIE GOSPODARCZE in Polish carries a 3,000-word article by Grazyna Garlinska on pages 1 and 4 detailing a report published in March 1992 entitled "Polish Private Enterprise: Analysis and Recommendations." The report was based on a survey conducted on the private sector of the Polish economy by the National Chamber of Commerce (KIG), with the cooperation of a number of other Polish institutions as

well as American University. The survey was sponsored by the Center for International Private Enterprise in Washington, D.C.

Garlinska notes that, until this survey, the "problems, successes, barriers to, and development of the private sector have not been properly analyzed." The survey involved 299 private firms, selected from over 1,000 in each of the Gdansk, Krakow, and Lodz voivodships. The firms had at least five employees each, had been engaged in economic activity for at least six consecutive months, and showed a growth in returns. The respondents—the firms' directors, owners, or accountants—evaluated government policies and answered questions concerning, among other things, capitalization, development plans, finances, and management issues.

The report showed that 70 percent of private enterprise owners in Lodz and Sieradz, and 63 percent in Lublin, were between 30 to 50 years old. It also noted that, among young people under age 30, there was an increased willingness to set up one's own firm. Indeed, almost 15 percent of owners of firms set up in the Lublin voivodship between 1989-91 were under age 30, as were 26 percent of the owners of private stores and service companies established in Lodz since 1988.

Garlinska notes with emphasis that the report reveals that over 64 percent of the entrepreneurs have completed higher education, with 42 percent of them being graduates of technical institutes and schools. Only 31 percent did not go beyond high school. As to why the entrepreneurs decided to "strike out on one's own," most of them responded that they wanted to actively apply what they had learned in school and through their own job experiences; they also valued "greater independence" in their work and "more creative freedom to fulfill their ambitions."

Among the barriers described in starting a private enterprise was the difficulty in acquiring capital. For 77 percent of the respondents, the main source of capital turned out to be their own savings, and about 20 percent borrowed from friends and family. The role of banks as sources of credit for the entrepreneurs proved to be marginal. According to Garlinska, as of 1990, banking credit policy has, for all intents and purposes, "cut off the potential entrepreneur from that source of capital." The specific policy problems are "universally known," notes Garlinska: the very high interest rates, the fluctuation of interest rates during the course of negotiations, and the "magnitude of the guarantee of the loan," as required by the banks. Hence, difficult access to bank loans and the lack of a national infrastructure guaranteeing such financial assistance "can have a negative influence on the development of private enterprises."

An analysis of the dimensions of charter capital from the point of view of the line of business of the firms, shows that trading companies possessed the most capital, higher even than production companies. That is attributed to the fact that many trading companies were

started only in the last year or two, while production companies were started earlier, and the "median dimensions of charter capital decreases considerably with the age of the company."

"Also interesting" is the observation that companies started by individuals had more charter capital than companies founded by shared capital. In addition, the study notes that most transactions were conducted in cash, with only 5 percent conducted with credit. The research also revealed that in most firms, "turnover is on the rise while profits are falling." This, note the authors of the study, "is quite obvious," because during a recession, smaller private enterprises find it difficult to raise prices to cover higher costs, while the recession does not take into account "the limited demand for their products or services, or competition." On the other hand, "turnover as well as costs are measured in zlotys in circulation,"... and not in zlotys adjusted to the rate of inflation.

Problems associated with maintaining financial liquidity—resulting from the "inefficient banking system"—exert a "large influence" on the situation of private enterprises. The study also notes that "turnover is financed largely from private resources (up to 84 percent)," with only 16 percent financed from other sources, and that is attributed to the high cost of credit and the difficulty in getting it. "The necessity to self-finance continuing ventures undoubtedly limits economic activity." The situation is particularly difficult for goods-producing enterprises that maintain "relatively large reserves of raw materials" which greatly exceed the supply of finished products.

The structure and implementation of the income tax systems, customs duty, and excise duties is "ineffective and unproductive," concludes the study. That brings about not only "a state of unfair competition," but also encourages the entrepreneurs to seek out "doubtful means to lower their tax burdens," so that they can compete with those enterprises that have "unjust tax breaks." In order to prevent such situations, the authors of the study propose "returning to the principles of a uniform tax" that would "annul all exemptions from taxation," and eliminate the current dual-tax system. In order to encourage income disclosure, the study proposes lowering the tax rate on individuals from 40 percent to 30 percent, and it also suggests lump sum tax for companies claiming no revenue.

A large portion of the study is devoted to marketing. While the recession has had a bad effect on both state and private enterprises, the latter are being especially hard-hit because they cannot—as a rule—lower their prices below cost. A marked fall in sales was observed in all areas of the economy in the geographic regions studied. The enterprises will not be able to survive a fall in sales lasting several months combined with a "chronic lack of capital."

Garlinska notes that the private sector "continues to be dependent to a large degree on the procurement—or

purchasing—'talents' of the state enterprises," and that, of course, fares variously). Many private companies, therefore, are forced to rely on the so-called "instant purchaser," as evidenced by the number of transactions entered into with wholesale firms and retail stores. The research shows that there is a "fairly large degree of dependency" on one or several buyers on the part of the firms, and the starkest example of that is in the Krakow region, "where the most important client purchased over 70 percent of the production of up to 36 percent of the enterprises, and between 30 and 70 percent in 23 percent of the firms surveyed." Those percentage breakdowns "are similarly high" for the Gdansk region, while Lodz, in contrast, had more enterprises with a "greater dispersion of sales." The production sphere shows a "much larger differentiation in sales" than do service enterprises. Indeed, the research supported the hypothesis "of the localized character of most of the private enterprises" especially regarding service enterprises and trading firms. This, in turn, explains the "marginal" role played by the foreign market for private enterprises, which is further affected by "the lack of financial resources, a lack of knowledge of foreign markets, and also the inadequate qualifications of management."

Despite all that, the "state monopoly in foreign trade" is steadily being broken by the private firms, notes Garlinska. There has been a "sudden growth" in private import companies, both small and medium-sized, in consumer goods. Indeed, the firms surveyed in the study show a "positive attitude" to international trade, with 14.7 percent of the firms in the three regions having already tried to establish joint ventures with foreign firms, and over half declaring a desire to "broaden the market for their goods." Service enterprises in particular (38.9 percent) saw the advantages of an expanded market, as did production enterprises (35.8 percent): "getting a foothold in the foreign market would help many private firms in maintaining themselves in the Polish market." There is increasing competition, "interestingly enough," from "other private firms ... operating in the so-called 'black market,'" firms that are not registered and pay no taxes, and hence can afford to lower prices. In order to combat this, registered firms are beginning to "modify" their methodology," for example, by "hiding" some amount of their sales "or artificially inflating their general costs," to the detriment, of course, of state finances.

The report notes that the banks cannot be counted on to help the many private firms that are trying "to keep pace with the growing demands of both the foreign and domestic markets" by "desperately" seeking capital to develop their firms and modernize their products. Most of the private firms are not in a position to get bank credits for investment and indeed, give up even trying because of bank demands for "very high insurance fees," which is attributed to the lack of personnel experienced in evaluating economic performance. For that reason, 70 percent of private enterprises have not even bothered to apply for bank credit. In addition, 84 percent of the enterprises

polled said that the interest rates are the "major hindrance" in making use of credit privileges, while 30 percent noted the banks' reluctance to deal with small firms. Because of the "lack of clarity" in the law governing ownership, the banks will not accept homes, personal residences, or other "liquid assets" as collateral. The study proposes the establishment of a Fund To Insure Private Credit To combat such difficulties. "It is worth noting," Garlinska writes, that the entrepreneurs stated that they would turn "almost all" profits that might accrue back into their enterprises, with only five percent of the profits going to the owners in the form of dividends, and four percent to purchase shares in circulation.

Finally, the entrepreneurs expressed "great interest in the privatization of state enterprises," given certain conditions. The authors of the report propose that select, if not all, state enterprises be sold at auction, and buyers could be either foreign or native, with a 15 percent stepup coefficient given to Polish buyers as an incentive (a 7.5 percent stepup coefficient would be offered to joint-venture type companies). The person offering the highest purchase price would be given "the right of ownership of the enterprise and its assets," while an interest-free mortgage settlement payment would be made to the government over the course of 10 years for large enterprises, and a shorter span of time for smaller firms. Payments would be adjusted to the rate of inflation.

In conclusion, Garlinska states that "there is no doubt that we must finally concentrate on creating better conditions for the development of the private sector," which, she points out, was responsible for up to 70 percent of the GNP between 1945-48, but which now is barely 30 percent.

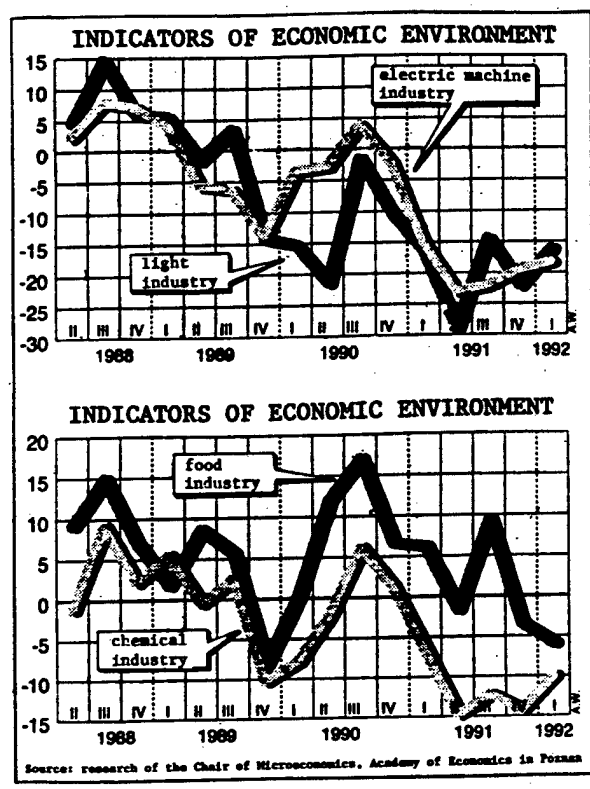
### **Economic Climate, Industrial Expectations**

92EP0488C Warsaw RZECZPOSPOLITA  
(ECONOMY AND LAW supplement) in Polish  
19 May 92 p III

[Article by Wieslawa Przybylska-Kapuscinska: "Economy Assessed by Enterprises: Fluctuations"]

[Text] Research results on the economic activity of government companies during the first quarter of 1992 confirm the continued negative assessments of what is called the companies' "climate," which is causing swings in the attitudes and assessments formulated by managers and directors.

This phenomenon was apparent in the absence of any clear tendency in economic events. The trend has continued since the second quarter of 1991. The great swings in the business climate have the nature of stagflation. The oscillations are relatively minor and have been occurring under the influence of various stimuli. At the same time, prices in the economy have been rising significantly, and there have been no opportunities for a breakthrough.



At the same time, the new system under which firms have been operating for over two years now has been constructive by helping to develop among management a promarket position, leading to more accurate forecasts. The confirmation of a negative forecast for the first quarter of 1992, given the present figures for the companies' economic activity, provided clear proof of that.

Despite the fluctuations in political, economic, and social moods and the trend towards stagflation in the government sector, the units queried had formulated a more auspicious forecast for the second quarter of 1992 than that for the first quarter of the year. At the moment, it is difficult to judge what considerations guided the companies that presented a less pessimistic vision for the coming months: faith in their own potential or faith in the implementation of the government's economic policy? The fact remains that their judgments are expressed in less negative terms. Therefore, with the exception of the food industry, the business climate indicators for the four industrial branch groups (see graphs) indicated a slight upturn.

#### Electric Machine Industry

The somewhat better second quarter forecast of operating conditions this year than previously noted played a strong role in the rise in the value of the business climate indicator, despite the negative assessments of current

economic results. Although the index is still negative (-18.2), it is close to the situation a year ago.

The overall assessment of the economic situation during the second quarter of this year remains negative, although the number of companies that expected things to get worse dropped five percentage points, to 42 percent. The supplies situation during upcoming months does not raise any special fears, and only nine percent of the companies responding in that branch expect to face problems with deliveries of raw materials.

Substantial overemployment has been evident for more than a year. The figures are still rather stable, about 54 percent, proving that the policy to rationalize employment in that industry has not been very effective. Among the groups examined, the electric machine industry branch has the highest level of potential unemployment.

The financial situation forecast for the second quarter of this year is less pessimistic, as expressed in the fact that companies predicting that their financial condition would become worse dropped by 20 percentage points, but the predictions of financial liquidity were still pessimistic for 48 percent of respondents in that industry.

Assessments of sales potential during the second quarter of 1992 are more optimistic than those formulated for the first quarter of the year. A whole 17 percent of the companies expect a rise in production sales, while the percentage of firms anticipating a drop declined from 35 percent to 28 percent. At the same time, we should emphasize that for over a year now company forecasts have been very reliable in this area, which shows that companies in that industry have increased their market awareness.

The forecast the electric machine industry formulated for demand is one of the most favorable forecasts made in that sector in over a year. Sixteen percent of the companies anticipate an increase in their orders, 5 percent more than in the previous forecast. One in four companies expects a decline. This latter prediction is 14 points better than during the first quarter of this year. We should emphasize, however, that the companies have little skill in estimating demand.

Only four percent of the companies expect a decline in wages, and 30 percent expect to raise prices.

In order to improve the economic results in that sector, one company out of every five has undertaken investment activity, with the major focus on modernization investments, and a whole 87 percent of companies have taken steps other than in the investment field, largely through appropriate marketing (73 percent) and introducing new products (50 percent).

#### Light Industry

Although light industry has faced the most difficult economic situation for a long time, new signs of activation appeared during the first quarter of 1992. Although the business climate index is still negative (-16), the indicator rose by six points in relation to the fourth quarter of 1991 and remains at the level of a year ago.

Light industry's expectations regarding what is called the first impression of the second quarter of 1992 are less pessimistic than the forecast for the first quarter this year and are more reminiscent of the third quarter of 1991. Only one-third of the respondents expect the situation to become worse. Furthermore, there was an increase of 10 points in the percentage of firms hoping for improvement in overall conditions in their companies. That figure now stands at 13 percent. The proportion of companies with a positive assessment of their supply situation remains high, at 86 percent of the respondents.

There is no clear improvement in managing the human factor, inasmuch as 46 percent of the companies still state there is excess employment.

Fifty-three companies expect their financial condition to become worse. That figure is down 14 points from before. At the same time, the percentage of companies expecting their liquidity to improve increased by 2.4 percent, to 6.5 percent. That means an overall decline in the financial barrier previously felt so keenly in that sector.

Production sales forecasts are gradually becoming more reliable, as experience increases. Sales predictions for the second quarter of this year are very optimistic. One company out of every five expects increased sales, while 15.6 percent of the respondents anticipate a decline in production. Prospects for the future are therefore more favorable than during the first quarter of last year.

Despite the time that has elapsed, companies in light industry are still demonstrating a chronic lack of skill in predicting demand. During the last quarter, the forecasts were completely wrong. Orders dropped for 50 percent of the respondents, but only 20 percent of the companies had anticipated a decline. Completely unjustified optimism continues to dominate the forecast of demand during the second quarter of this year, with 14 percent of the companies expecting demand to drop, but as many as 26 percent predicting increased demand.

Eight percent of respondents expect a decline in real wages, but 38 percent of the companies are planning price increases for their products.

During the first quarter of 1992, there was a slight decline (two percent) in the percentage of companies carrying out investments to improve their economic situation (20 percent). Noninvestment activity was preferred by 74 percent, but fewer companies among the groups analyzed in the light industry branch actually committed themselves to such activity. Marketing played the largest role (60 percent of the respondents).

#### **Chemical Industry**

Operating conditions in this group have generally been easier than in the two branches described above, but the demand barrier was singled out, and it, along with competitive imports, had a great bearing on the general feelings in that sector during the first quarter. The

business climate index is still negative (- 10), but it increased by four points in relation to the fourth quarter of 1991.

The forecast of the general economic situation during the second quarter of this year is less pessimistic than that formulated for the first quarter, in that only one-third of the companies anticipate difficulties (compared to as many as 46 percent before), and 13 percent expect improvement. Assessments of the supply situation, although they remain good (85 percent), are nonetheless 10 points lower than during the previous period. This is a symptom of the growing raw materials barrier in that industry, where a whole 15 percent of the respondents are anticipating difficulties.

Employment surpluses listed by the chemical industry's companies are the lowest among the branch groups examined, just 35 percent of employees.

A whole 56 percent of the companies queried expressed fears over financial conditions. That is the highest percentage of such opinions given in processing industry.

The demand barrier is highest in this branch, a fact which should lead to the formulation of careful demand forecasting. Meanwhile, one company out of every four predicts an increase in orders, while only 14 percent anticipate a decline. At the same time, we must mention that the chemical industry has been putting out completely erroneous demand forecasts for a long time.

The strong influence of the demand barrier and competitive imports should incline companies to make certain their production forecasts are correct, but reality is different, because 20 percent of the companies are expecting production to increase, while only 17 percent expect it to decline. This branch still has predominating symptoms of "feeling good" without any real justification, considering that the industry is facing three of the strongest barriers to economic activity: the barriers of demand, financial blocks, and competition from imports. As many as 65 percent of chemical industry respondents anticipated price increases on their products.

#### **Food Industry**

The food industry's generally more favorable situation among the branches examined over the past year was not steady. The business climate index showed a further decline during the first quarter of this year (- 5.9) beyond that of the fourth quarter of 1991 (- 3.4). Although it is still the highest in processing industry, conditions are similar to those during the fourth quarter of 1989. The economic results from the first quarter of 1992 were the major influencing factor.

The forecast for the general economic situation for the second quarter of this year is more optimistic than that formulated for the first quarter of this year. Eleven percent of the companies are anticipating improved operating conditions, while 28 percent predict a deterioration.

The exceptionally pessimistic food industry forecast in the realm of supplies of raw materials is quite startling, because as many as 23 percent of the companies anticipate difficulties. This is the highest percentage among the sectors examined, and that situation has not been noted for a long time.

The food industry is aware of potential unemployment, because 43 percent of the companies stated there was excessive employment.

The companies are forecasting an improvement in financial conditions, which is why the financial barrier is the least intensive in this industry (about 51 percent). One company out of every three expects a deterioration in financial possibilities during the second quarter, compared to every other company in other areas.

Production forecasts for the second quarter are more optimistic than those for the first quarter. Twenty-six companies expect production to increase, while 15 percent expect it to decrease. It is worth mentioning the high level of accuracy the food industry has enjoyed in formulating its production forecasts. Given the fact that demand barriers are less frequent here than in any other area, the forecast for demand during the second quarter is more optimistic. Twenty-three percent of the companies expect improvement in the level of orders, but 11.5 percent of respondents anticipate a decline in orders. The great competition from private imports makes it difficult for the food industry to forecast demand accurately. The companies do not know the extent of private imports. It is therefore difficult to estimate local potential for sales. Fifteen percent of the companies queried expected wages to increase, and 48 percent anticipated an increase in the prices of their products.

The past food industry figures, which were better, by no means discouraged companies from efforts to make further improvements in their economic condition. The food industry was still very committed to investment activity (40 percent of respondents) and noninvestment activity (80 percent of respondents). All noninvestment possibilities were exploited to an equal extent (about 40 percent), including marketing, the introduction of new products, and improved company organization and management.

### **Industrial Restructuring, Policy Draft Outlined**

92EP0548D Warsaw RZECZPOSPOLITA  
(ECONOMY AND LAW supplement) in Polish  
23 Jun 92 p I

[Article by Antoni Kowalik: "A Bill for 160 Trillion Zloty: Restructuring Industry"]

[Text] The Ministry of Industry and Trade has developed a proposal for an industrial policy that is to be coherent with the regional, ecological, and spatial-planning policies of the nation. In its document, the ministry emphasizes that its goals are, among other things: to halt the recession, to create stable conditions

for business activity, to increase exports, and to promote small and medium-sized companies.

According to the proposal, the industrial policy as an element in the country's economic strategy should be made known to each unit it concerns. Only in that way is it possible to achieve the essential understanding and uniformity of action. The center directing that policy should be a Ministry of Economy; the executors should be economic units; on the other hand, the organizers of the processes are to be agencies specially formed for that purpose.

Two approaches to implementing industrial policy have been proposed: a problem and a sector approach. In the problem approach, organization and ownership of industry receive particular attention. The experiences of the last two years in managing the government sector, as is emphasized, have shown that the self-management conception has not proved workable. Therefore, there is no justification for legal regulations regarding state enterprises and for single-individual partnerships of the Treasury, as distinct categories.

The plan emphasizes that all economic units, regardless of the type of ownership, should fall under the same legal regulations. It is essential to rapidly transform the state enterprises into partnerships under the commercial law and to liquidate the legal dualism.

The goal of restructuring on a macro scale is to separate out centers of economic growth—existing enterprises which are competitive in the market or driving competition in the entire economy or regions. On the other hand, inefficient units with no chance for development should be liquidated.

Privatization, the plan emphasizes, should be a method for increasing the efficiency of economic units. In transforming these, the state treasury should be guaranteed control of a stock portfolio in enterprises of strategic significance.

In many places, economic and financial instruments for stimulating production are given much attention. The basic task is to reduce the debt of enterprises, which in practice is to be done in three stages.

The first is to eliminate the chain of mutual obligations among economic units, the liquidation of so-called empty debts. Next, actions are to be taken to reduce debt in accord with the law on the financial restructuring of enterprises and banks. It should apply primarily to enterprises that have fallen into debt as a result of making major investments, incurred debt prior to January 1990, have profitable sales, are restructuring, and to enterprises indicated in sector studies.

Four sectors are offered for industrial policy. They are the fuel and energy industry, the high-energy consumption and capital-consuming industries that require modernization, "high opportunity" branches and products, and sectors "of high need," which are currently experiencing a regression, but could play a significant role in the economy: the petrochemical industry, electronics, the automotive industry, packaging, pharmaceuticals, machinery and agricultural equipment, light industry, and the environmental-equipment industry.

It is calculated that in 1992, restructuring industry will require budget support on the order of three trillion zloty [Z], with the total cost of restructuring being estimated at Z146 to Z160 trillion.

### **Financing for Farms Facing Indebtedness Discussed**

92EP0548E Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 30 Jun 92 p 1

[Article by Edmund Szot: "The Banks Already Know: The Fund for Restructuring and Debt Reduction for Agriculture"]

[Text] On 29 June 1992, at the Ministry of Agriculture and Food Industry [MRiGZ], there was a meeting with representatives of four central banks: the Food Industry Bank, the Wielkopolski Economic Bank of Poznan, the Bank for Economic Union in Warsaw, and the South-western Economic Bank in Wroclaw. The meeting presented the mechanisms covering the Fund for Farm Debt Restructuring and Reduction [FRiOR] and to outline the principles for cooperation by the banks with the MRiGZ, which is the manager of the fund.

"We established these principles: the fund's purchase of farm debt, banks providing modernization loans, and loan guarantees. We also discussed ways of implementing all three of the fund's goals," says Jerzy Rey, director general of the MRiGZ. "We presented the banks with model agreements for taking over debt, concluded between the cooperative banks and the central banks. We also presented model certificates or commercial paper issued by the loan-issuing banks for the value of the past-due loan. The fund will purchase the certificates at a specified rate equal to about 70 percent."

The fund will begin operations on 1 July 1992. Thus, though initially nothing foreshadowed this success, the original deadline has been met. The account of the fund is already open and has a total of 750 billion zloty [Z] in it at present. About Z300 billion, which the MRiGZ has at its disposal and another Z300 billion from the items in the budget law marked for restructuring expenses, should be added to that amount. The total resources significantly exceed the expenses the fund will be required to earmark for restructuring farm debt. It is calculated that the amount of past-due debt is about Z500 billion and that it consists of the obligations of about 23,000 farms. Their owners, if they want to take advantage of the fund's help, should, by 1 July 1992, make an appropriate application to their local bank,

and if they receive a positive evaluation from the social commission, the fund will give such a farm the applicable help. It is estimated that nearly all farm debt can be settled in a period of two or three months.

Individual farms, farm producers with farm plots of less than 1 hectare, individuals in rural areas working on jobs associated with agriculture, civilian partnerships, and commercial partnerships (except for stock companies) can seek help from the fund. All these units must also operate in agriculture, food processing, or in services associated with those branches of the economy.

### **Foreign Investment in Farming Sector Sought**

92EP0548C Warsaw RZECZPOSPOLITA  
(ECONOMY AND LAW supplement) in Polish  
23 Jun 92 p II

[Article by Edmund Szot: "Polish Agriculture in Europe: A Meeting With Embassy Counselors"]

[Text] On Monday 22 June 1992 at the Ministry of Agriculture and Food Industry, there was a meeting of the leadership of the ministry with counselors of 15 countries' embassies. Among them were representatives not only of European countries, but also of such countries as the United States, Canada, Japan, and Israel. The meeting was devoted to providing reliable information about Polish agriculture—the information appearing in the world press is frequently not too accurate and comes from unreliable sources. Obviously, reliable information is also provided for some reason, and in this case, it was to encourage Western countries to take an interest in investment opportunities in the development of Polish agriculture and the food industry, which want to meet Western European standards.

"Various opinions about Polish agriculture are in circulation," said Minister Gabriel Janowski. "Some think that it is progressive for this part of Europe, but others think that it is backward, a real museum. Polish agriculture defended itself against collectivization, but it remained dispersed and under-invested. It is, however, worthwhile emphasizing that in terms of agricultural land under cultivation, Poland is behind only two countries of the EC. We would like for that capacity to be used better, and we also foresee participation by foreign units in agriculture that could, for example, invest in the development of our food industry."

Deputy Minister Janusz Bylinski attempted to make a case for how good a business interest that would be. "Polish agriculture's raw foodstuffs," he said, "are of very high quality. That is a result of the minimal use of insecticides, 20-times lower than in Holland. For now, however, Western capital takes greater note only of two industries: alcohol and tobacco, and only puts significant capital to work there. Meanwhile, there are many other branches of the food industry in which domestic raw materials significantly exceed the processing capacity. I mention only animal fat and potatoes. In turn, many other branches could use a shot of modernization. There are places for investment where no poor profits can be made, such as from exports of processed

products, something which is the ambition of each section of the economy and a measure of its efficiency."

The Polish food industry's export plans have most strongly attracted the representatives of Denmark, which sells two-thirds of its agricultural production abroad. They ask to whom and what we want to sell; the Canadian representative was concerned with Poland's announcement introducing equalization payments; the Swedish representative in turn thought that the plant sanitary permits required by Poland are an attempt to license imports of fruits and vegetables. Each, as the above shows, looks through the prism of his country's interests, but regards Poland's undertaking born of the same interests as an unessential burden. That is a result of the slightly different treatment of our country, which itself helped cause the situation by not protecting its markets in the past with duties and other barriers. Meanwhile, Polish agriculture must protect its interests if it is to develop, which does not mean that it wants to depart from the path of openness. Whichever government is formed, it will not resign from cooperating with other countries; thus, fears regarding the continuity of the policy of openness are unfounded.

#### Financial Effect of Benefit Increases Assessed

92EP0489A Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 19 May 92 p V

[Article by Jolanta Kroner: "Retirements and Pensions After Revaluation"]

[Text] In December 1991, the Social Security Agency carried out a general revaluation of workers' retirements and pensions based on the law of 17 October 1991. The purpose of the operation was to reestablish parity between the basis for determining the benefits already paid and the average wage at the moment the retirement or pension was awarded, in other words, to eliminate the infamous old portfolio.

A recalculation of benefits according to completely new principles was included with the revaluation. According to them, benefits now consist of three parts: the first is equal to 24 percent of the average wage; the second is calculated using the individual's basis for determining benefits, 1.3 percent of this basis for each year worked for which contributions were made to the Social Security Agency; the third is also calculated using the individual's basis for determining benefits, 0.7 percent of the determining basis for each year worked for which contributions were not paid to the Social Security Agency. (Retirements and persons for military, police, and prison service were not included in the recalculations.)

An upper limit for the amount of the determining basis for benefits of 250 percent of the national average wage was also used.

#### Who Gained, Who Lost

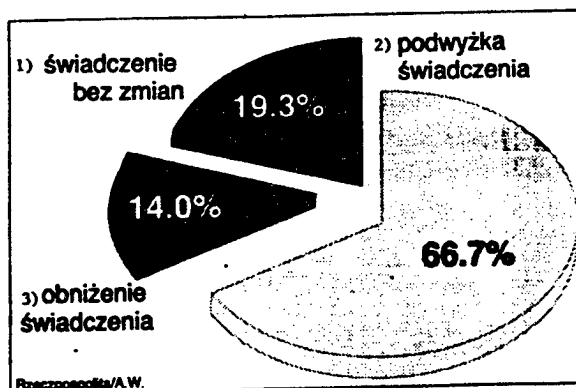
The Social Security Agency has already evaluated the effects of the revaluation and recalculations. The

report shows that the benefits paid to 6.015 million individuals were put through the recalculation operations. Against the background of the extensive criticism of the effects of the law, it is worth noting the fact that 4.009 million individuals, i.e. 66.7 percent of the entire group, received increases, an average of 291,400 zlotys [Z]. On the other hand, the benefits set according to the new principles were lower for 2.005 million individuals.

However, the benefits for all of the latter individuals were not reduced because the guaranteed levels were utilized causing the benefits that did not exceed Z800,000 to receive the previous amount (no more than Z800,000) until as a result of revaluation the benefits exceed that amount. The guaranteed levels were awarded to 875,300 individuals, and after that level was increased to Z1 million, to an additional 288,000 individuals. As a result, the guaranteed levels protected 1.163 million individuals, 19.3 percent, when the revaluation was done. In April 1992, these same individuals did not receive an increase upon revaluation.

Invalid pensioners profited from the guaranteed levels to the greatest degree, nearly one in three. Among individuals receiving family pensions, one in five profited from

Effects of Revaluation Recalculations



Key:

1. Benefits Unchanged
2. Reduced Benefits
3. Benefits Increased

this temporary protection. Among retirees, one in 20 profited.

As a result of the new system, 842,400 individuals, 14 percent of the total, lost an average of Z415,900. The loss affected nearly one in four retirees, 23 percent, seven percent of the invalid pensioners, and three percent collecting family pensions.

#### How Much, for Whom

When the revaluation was done, the average wage was Z1.7 million and that sum was used as the base amount for the

recalculation. The average base wage for the revaluation was Z1.8853 million, 110 percent of the average wage; before the revaluation the average determining basis was 67.2 percent of the average wage. Thus, perhaps surprisingly, the average determining basis for retirement and pension benefits increased by an average of 65 percent.

The most favorable indices of the entire recalculation operation were for family pensions and retirements.

- Among retirees, 1.8878 million individuals, or 72.8 percent, received increases averaging Z315,200. The average basis for determining worker retirements was Z2.0417 million, 120 percent of the average wage.
- Invalid pensioners received the least benefit; 1.2175 million individuals, or 54.9 percent, received increases averaging Z249,900. The average basis for determining an invalid pension was Z1.6031 million, or 94.3 percent of the average wage.
- Among family pensions, 696,700 individuals, or 78.2 percent, received increases averaging Z295,500. The average basis for determining family pensions was Z2.0944 million, or 123.2 percent of the average wage. In this group, the benefits of individuals whose benefits were revalued in October 1990 because they had reached age 80 were also increased.

Limiting the determining basis to 250 percent of the average wage affected 250,000 retirements and pensions, 3.4 percent of the total.

The changes occurring in the structure of retirements under the influence of revaluation are clearly illustrated in the following:

- The average retirement or pension benefit prior to revaluation was Z1.0239 million, or 60.2 percent of the average wage; after revaluation, it was Z1.1374 million, or 66.9 percent of the average wage.
- The average retirement prior to recalculation was Z1.1958 million, or 70.3 percent of the average wage; after revaluation, it was Z1.3354 million, or 78.6 percent of the average wage.
- The average invalid pension prior to revaluation was Z880,100, or 51.8 percent of the average wage; after revaluation, Z928,000, or 54.6 percent of the average wage.
- The average family pension was Z889,000, or 52.3 percent of the average wage; after revaluation, Z1.0904 million, or 64.1 percent of the average wage.

#### Movement in the "Portfolio"

The summary distribution of the particular benefits prior to revaluation and after is shown in the table.

**Distribution of Benefits Before and After Revaluation**

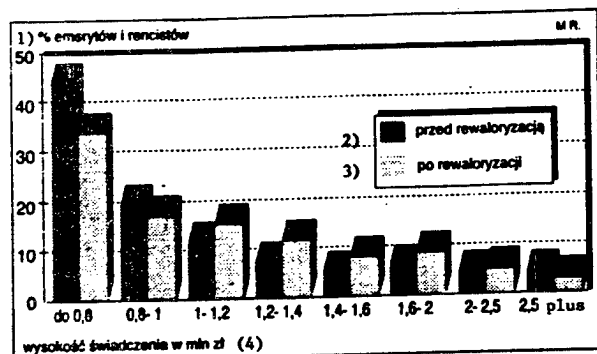
Level of Benefits (in zlotys)	Retirements		Invalid Pensions		Family Pensions	
	Before Revaluation	After Revaluation	Before Revaluation	After Revaluation	Before Revaluation	After Revaluation
Total	100.0	100.0	100.0	100.0	100.0	100.0
To 800,000	23.9	11.4	62.4	58.2	57.5	38.9
800,000 to 1 million	23.2	16.7	14.6	16.6	20.2	19.3
1 to 1.2 million	15.6	20.4	6.9	8.8	10.2	14.5
1.2 to 1.4 million	10.1	17.5	4.4	4.8	4.7	9.9
1.4 to 1.6 million	7.0	12.3	2.9	2.7	2.6	6.5
1.6 to 2 million	8.4	12.7	3.8	3.2	2.5	7.4
2 to 2.5 million	6.0	6.6	2.8	2.5	1.1	2.5
2.5 million and above	5.8	2.4	2.2	3.2	1.2	1.0

In general, prior to the recalculation operation, benefits below Z800,000 constituted 44.4 percent of retirements and pensions; after the operation the percentage of individuals receiving such benefits declined to 33.8 percent. The group between Z800,000 and Z1 million, consisted of 19.3 percent; now 17.1 percent. The group receiving benefits between Z1 million and Z1.2 million increased to 15 percent from 11.3 percent and the group receiving benefits between Z1.2 million and Z1.4 million increased to 11.4 percent from 7 percent. The group receiving benefits between Z1.4 million to Z2 million

increased rather significantly, to 16 percent from 10.4 percent. The group receiving benefits between Z2 million and Z2.5 million also increased somewhat to 4.3 percent from 3.9 percent. On the other hand, the number of benefits today included among the highest, exceeding Z2.5 million declined to 2.4 percent from 3.7 percent of the entire retirement and pension portfolio.

In brief, it is possible to say that as a result of the revaluation the number of lowest and highest benefits declined; while the number of average retirements and pensions increased.

### Changes in the Structure of Retirement and Pension Levels



#### Key:

1. Percent of Retirees and Pensioners
2. Before Revaluation
3. After Revaluation
4. Benefit Levels (in millions of zlotys)

### Accident and Combatant Benefits

The value of benefits for individuals hurt in an accident or by an occupational disease or paid to war or combat invalids are distributed somewhat differently. These payments are clearly higher than those discussed so far, and the difference results from the fact that these groups frequently have the right to more than one benefit and that the amounts are added together.

Among the accident pensions, benefits paid in amounts up to Z1.2 previously dominated. They constituted as much as 58 percent; the lowest to Z800,000 constituted nearly 20 percent. The percentage of the lowest has declined to 15 percent, but the group up to Z1.2 million included 38.5 percent of the accident benefits. The percentage of higher payments, however, increased: for Z2 to Z2.5 million, 11.7 percent of the work invalids, and above Z2.5 million, 17.2 percent.

Combatant retirements and pensions before revaluation were also higher than general ones; those up to Z800,000 included only 1.8 percent of these benefits, currently 0.9 percent. But the group between Z1 million and Z1.2 million includes 22.2 percent of these benefits; this group now receives only 1.4 percent of the benefits. The group above Z2 million, which included more than 33 percent of the individuals, now includes 52.4 percent.

### The Old and the Oldest

The basic declared goal of the revaluation was to restore to the retirements and pensions awarded long ago their original value. The point was to repair damage that time and inflation had caused to the oldest retirement and pension portfolio. And there was something to repair: among benefits awarded prior to 1981 as much as 50 percent did not exceed Z800,000, and 83 percent did not exceed Z1.2 million. After revaluation, the Z800,000

boundary has still not been crossed by one in three individuals' benefits in this age group (that is explained by the relatively short lengths of service of these cohorts), and 68 percent of the individuals of these cohorts receive amounts up to Z1.2 million.

A similar tendency can be observed in the portfolio of benefits for 1982-88.

The results of the recalculation on retirements and pensions for 1989-91, the most recent, is different. Since they were calculated on a revalued determining basis and revalued to much, it appears beginning in January 1992, the recalculation for them was done only according to the new principles. In general, that was the most favorable recalculation for these cohorts of benefit recipients, as appears in the statistics.

The lowest group up to Z800,000 prior to recalculation included 43 percent of the retirements and pensions awarded in 1989 and 24 percent awarded in 1990-91. After recalculation, these figures were respectively for 1989, 40.4 percent, indicating a slight improvement, and for 1990-91, 27.7 percent, an increase indicating a deterioration. The benefits awarded in 1989 above Z2 million included 16 percent, after recalculation the figure was 6 percent. For 1990-91, the same figures were 19.3 percent prior to recalculation and 7.8 percent after recalculation.

The relation of the average retirement or pension to the average wage changed accordingly:

- For benefits awarded prior to 1981, the figure increased to 66.5 percent from 55.9 percent;
- for the 1982-83 cohorts, the figure increased to 67.2 percent from 52.2 percent;
- for the 1984-88 cohorts, the figure increased to 64.2 percent from 55.6 percent;
- for the 1989 cohort, the figure decreased to 61.6 percent from 70.5 percent;
- for the 1990-91 cohorts, the figure decreased to 69.3 percent from 82.2 percent.

In spite of everything, the highest index of the average benefit to the average wage is that for 1990-91. That fact is explained by the relatively longer length of service for retirees and pensioners in this group; they averaged 38 years of work, while those who retired earlier averaged 32 years of work.

### Costs

Those concerned themselves remember best that all the benefits which were increased as a result of the revaluation and recalculation were paid at the new levels beginning 1 November 1991; on the other hand, those which were reduced were paid at the new levels only two months later, beginning 1 January 1992. The Social Security Agency calculated that the increase in expenses associated with the increases was on the order of Z1.1694 billion a month; while after the introduction in January 1992 of the decreased benefits, the monthly cost

of the reform was Z792.1 billion. (This analysis does not include the higher conversion rates for years of work for miners or the effects of the three-year delay in the recalculation of the determining basis of benefits for the old portfolio.)

[Box, p V]

The April revaluation of retirements and pensions brought an average increase of about Z200,000. That was the result of the correction of 6.5 million benefits for the index of the average increase in wages of 14.98 percent. According to the Social Security Agency, the average retirement and pension benefit was Z1.7970 million gross (a net of about Z1.5 million).

[Box, p V]

**What Will the Decision of the Constitutional Tribunal Change?**

The Constitutional Tribunal decided that the provisions of the law on revaluing retirements and pensions of 17 October 1991 conflict with the constitution of the Republic of Poland. As is known, of the 11 charges against the law presented to the Constitutional Tribunal, the Sejm considered only three justified. They are:

- The liquidation of industry supplements to retirements and pensions (other than supplements for state awards);
- The rights to retirements and pensions earned prior to the date when the law went into effect, but lost under the new provisions;
- The setting of 31 December 1993 as the date ending the temporary validity of the law.

This means that the Sejm has determined it is necessary to change these provision within six months, as it next decided.

The other accusations of the Constitutional Tribunal, however, were rejected. They concerned:

- The new principles for setting the level of benefits;
- The principles for revaluing retirements and pensions;
- The maximum limit of the basis for determining benefits of 250 percent of the average national wage;
- Limiting the periods of years of forced labor counted doubly to one-third of employment;
- Limiting concurrent rights for military and war invalids to 150 percent of the benefits chosen in the way most beneficial for the person concerned.

As a result, the law until now a temporary one, will become a permanent binding law, and the principles contained in it are unconditionally binding.

A settlement of the questions concerning industry supplements to retirements and pensions remains outstanding; it will surely be the subject of negotiations between the government and workers' representatives.

**Status of Gasoline Market, Production Viewed**

92EP0539A Warsaw GAZETA WYBORCZA in Polish  
16 Jun 92 p 15

[Article by Krzysztof A. Kowalczyk: "The Freedom To Refuel"]

[Text] For more than three years now we have been buying gasoline without ration coupons, and for the last two years we have been able to avail ourselves of the services of private gasoline stations. It might seem that the monopoly of the Petroleum Products Agency (CPN) has been broken and we have a free fuel market. Yet the price of gasoline is still fixed by the Minister of Finance and the officials of the Minister of Foreign Economic Relations keep regulating the market by means of import licenses.

\* \* \*

Minister Glapinski's Ministry of Foreign Economic Relations has already eliminated the biggest gasoline-importing private companies and, as a corollary, it is resulting in shortages of lead-free gasoline and ethyl gasoline with an octane rating of 98.

All this is being done supposedly to protect domestic refineries, which are too obsolete and produce at too high a cost to withstand price competition from the big Western oil companies.

**The Attractions of the Polish Market**

"Our greatest asset in negotiations with foreign companies is the Polish market," said Kazimierz Adamczyk, director general at the Ministry of Industry. In his opinion, Europe is overproducing liquid fuels and foreign companies would prefer to import them to Poland instead of investing in this country. "But we want to promote fuel production in this country, and therefore the road to our market should lead through investments in refineries," Kazimierz Adamczyk commented. "During the transition period the Polish refineries should be granted preferences" (state fuel prices, import restrictions—Editor's note).

In the opinion of Polish experts the modernization of the domestic fuel industry requires \$3-5 billion, which we do not have. These funds are had by Western companies, which are greedily looking for new markets.

"Our market is attractive to the oil companies," declared CPN Director Jerzy Malyska.

In Poland there are about 10 million vehicles, including some six million passenger cars (data as of the end of 1991). According to the CPN, gasoline consumption last year alone increased by as much as 15 percent.

Conoco, the fuels division of Du Pont, a chemical concern, is offering \$1 billion for the modernization of

the Gdansk refinery and the construction of a network of gasoline stations. The French Total gas company is also interested in Gdansk.

### Courting the CPN

The CPN with its gasoline stations, fuel depots, and pipelines is undoubtedly an attractive partner to foreign capital. Its management is aware that, instead of fighting the competition, it is best to join it early. That is why they have already signed four letters of intent to establish shared sales networks: with the French Total, the Italian Agip, the German concern DEA Castrol, and the Norwegian Statoil.

The assumption was that by forming partnerships with the companies, the CPN would transfer to each partner three to 10 stations apiece. The profits to be earned by those stations would be allocated for building more stations.

But this program was blocked last year by the Ministry of Privatization, which believes that first a program for ownership transformation has to be worked out for the entire fuel branch.

### A Nonexistent Program

Three successive governments were unable to decide what to do with the CPN and how to introduce foreign capital into domestic refineries. A continuing dispute on the subject is underway between the Ministries of Industry and Ownership Transformations.

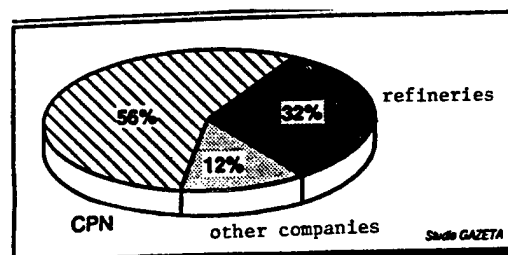
According to Kazimierz Adamczyk, the Ministry of Industry would like to alter the structure of the fuel branch before letting foreign capital into it. This concerns chiefly linking the refineries to the CPN's distribution network. The Ministry of Ownership Transformation, on the other hand, wants to give precedence to privatizing the entire branch.

We do not as yet know the details of that dispute, because the work of the pertinent interministry task force remains classified. It is known, however, that the Ministry of Industry insists on the concept, developed by EC experts, of a gradual liberalization of the fuel market, which would be completed in the years 1995-96. By that time gasoline price controls and import restrictions would be abolished and domestic refineries and the CPN would have sufficient time to prepare themselves for ruthless competition on the open market.

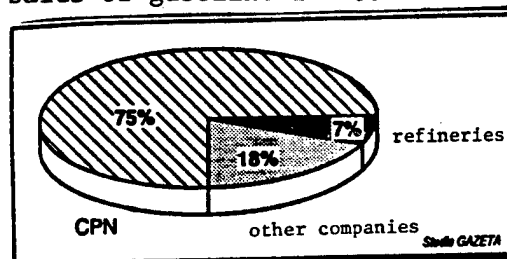
### How To Let in the Big Oil Companies?

The proposals of EC experts assume a breakup of the network of CPN gasoline stations between the Gdansk and Plock refineries, with 10 percent of the stations to be set aside for the Western companies investing in Poland. Fuel would be delivered to the station by a separate distributing company owning, among other things, the pipelines linking the Plock Refinery to the fuel depots in the environs of Warsaw, Bydgoszcz, and Koluszki.

Sales of diesel fuel in 1991



Sales of gasoline in 1991



The CPN is fiercely resisting that breakup. Its director is proposing instead the formation of a Polish oil company which could in the future challenge the competition by the oil giants.

It would be a holding company, consisting of the refineries and the CPN, according to Director Malyska. "Western companies could own a 10-15 percent share in it, but the controlling block of shares should be held by the State Treasury.

"Unless we establish that holding company, the Polish refineries will founder and Western oil companies will enter our market anyway," the director said.

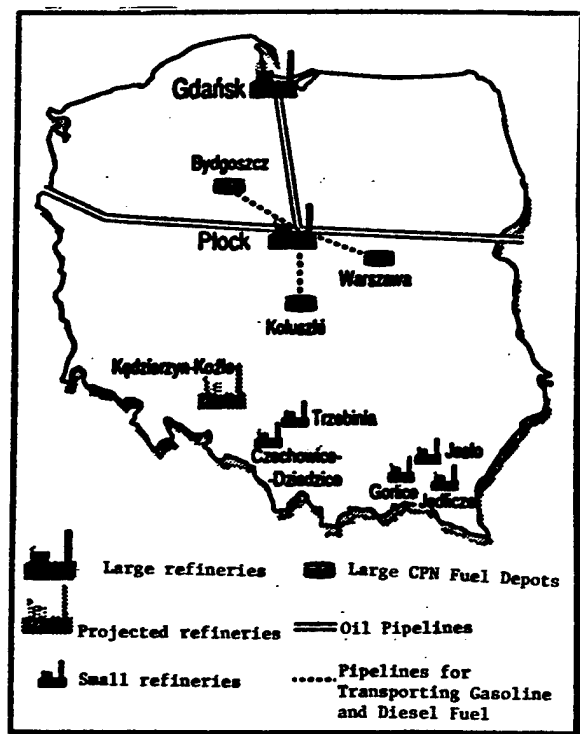
The CPN operates 1,365 gasoline stations, and the other companies altogether 2,500, but these competitors are incapable of competing with that domestic giant, which controls about 70 percent of the fuel market.

The non-CPN facilities are mostly old service stations at the transport bases of state enterprises. Located at a distance from the main roads, they often operate only between 8 a.m. and 3 p.m. and car owners rarely tank up at them. A greater challenge to the CPN may be offered by the private gas stations arising along the main roads and geared to mass servicing of private drivers.

### The Scuffle for Gasoline

However, barely after private fuel companies began to grow, barely after they began to invest the funds earned from their sales of gasoline, their existence became threatened. That happened because Minister Glapinski decided to protect Polish refineries against competition from imported fuels (especially diesel fuel) by means of

Refineries in Poland



licenses and import quotas. He is also availing himself of this occasion to drive out of business those who cheated on customs duties or exploited legal loopholes to avoid paying taxes.

Thus, it was the state-owned giants, the CPN and CIECH [Import-Export Agency for Chemicals and Chemical Equipment], that received the licenses, along with several private companies, mostly those of no major importance in the field of gasoline sales. As for the big private importers, they were kept off the ship.

#### Licensing as a Weapon Against Private Gasoline Station Operators

The ministry's decisions were a blow to the private gasoline stations until then supplied by private wholesalers. "It does not pay them to buy fuels from the CPN," said Mirosław Laskowski of the Polish Chamber for Liquid Fuels. In his opinion, the wholesale prices asked by the CPN are too high. The difference between them and the retail price is 90 zlotys per liter of gasoline, of which about 60 zlotys goes for the newly introduced one-percent sales tax and the remainder for the cost of transportation.

"In these circumstances, how can the three or four billion zloty loan for building the station be repaid?" the members of the ASSA Chamber, the association of about 200 gasoline station owners, wondered.

Thus the Polish fuel market faces the threat of again becoming a monopoly even before the fate of the state-owned refineries and the CPN is known.

According to recent rumors, the secret work of the interministry task force should be ended this June. Thus the new government could decide on the future of the fuel branch this summer. The Anti-Monopoly Office believes that CPN stations should be divided between the refineries so as to make them compete on the local markets even before this year is over.

**Defense Ministry State Secretary Voinea Dies**92P20348A Bucharest *LIBERTATEA* in Romanian  
23-24 Jun 92 p 8

[Excerpt] The leadership of the Ministry of National Defense announces, with deep sadness, the death of Lieutenant General Gheorghe Voinea, state secretary and chief of the Army logistics department. Trained as an artillery officer, demonstrating noble military qualities, he devoted his entire life to a military career in the course of which he held high positions of leadership. The sudden and untimely death of this highly-esteemed military man and irreplaceable colleague and friend, is a serious and painful loss for the Romanian Army. [passage omitted]

**Colombian Drug Ring, Smugglers Exposed in Cluj**92P20347A Bucharest *ADEVARUL* in Romanian  
27-28 Jun 92 p 1

[Article by Nicolae Militaru and Petre Popa: "The Medellin Cartel Extends Its Tentacles to Romania—In Cluj, the Romanian Police, Working Along With INTERPOL, Uncovers a Dangerous Colombian Drug Ring"]

[Text] For a number of months, many packages from Colombia arrived, addressed to citizens of Cluj County. Despite the fact that the Cluj residents did not have any relatives and did not know anyone in the distant South American country, that did not attract anyone's attention, at least for a while. Since the packages contained books and items of general use, it was believed that it was a matter of aid from charities or from persons who chose this means to demonstrate their love for Romania.

Perhaps such packages would still be arriving in Cluj if INTERPOL had not informed the Romanian police of the possibility that the territory of our country might be used by a Colombian drug ring. The anti-drugs, weapons, and explosives team in the General Inspectorate of the Police went on the alert. And as we can see the alert was justified. Following the tracks of the Colombian packages, the Romanian police found 12.59 kg of cocaine—the largest drug seizure in our country up to now.

As we know, the drug traffickers perfected not only well-camouflaged networks, but also some of the most ingenious methods for transporting and placing the drugs. In the case in Cluj, the "white death" was hidden between the covers of hundreds of bibles, children's books, and treatises on medicine. The Colombians put a layer of drugs inside the cover of the books and then wrapped the book in a sheet of colored celluloid. Who could imagine that, merely by cutting open the protective covering, you could have "harvested" several dozen grams of cocaine. That is, a number of portions which sell for between \$50 and \$200 a gram on the drug market. After further investigation, the Romanian police discovered something else, which had not been suspected by their colleagues from INTERPOL in Wiesbaden, with whom they closely collaborated on the case. A number of rolls of film, among other things, were found in some packages received from Colombia. About 10 meters of film on the rolls were

normal, but they were followed by 10 more meters with an additional layer of film, with cocaine between the layers. Once they uncovered the terrible poison, it was not hard for the police to find the traffickers. They are Juan Carlos Rua Medina, 25 years old, from Colombia and Varti Ludovico, 27 years old, from Italy. The Colombian was recruited by the dreaded drug mafia in his country through the intermediary of a fellow countryman who had studied in Romania and who was married to a woman from Cluj, a former colleague from the faculty. The Cluj woman from Colombia had a sister in Romania—Denisa Lazar, 36 years old, a stock clerk in a commercial company. She became an accomplice for the two traffickers. The packages from Colombia came, for the most part, to her address. So as not to arouse suspicion, she asked a number of her friends and acquaintances to receive parcels at their addresses, in exchange for some small presents.

It should be noted, as Colonel Jenica Dragan, head of the anti-drug, weapons, and explosives team said, that, along with the large quantity of drugs uncovered, the simultaneous apprehension and arrest of the three resulted in the complete liquidation of a dangerous net which could have expanded and which was in direct contact with the Italian mafia. Indeed, Juan Carlos Roa Medina was able to bring a small quantity of cocaine into Romania as part of a trip to test the vigilance of the Romanian authorities. That is why the Cluj court sentenced him to six years in prison—one year more than the usual maximum sentence in such cases. The Italian was sentenced to five years, but he paid a \$10,000 bond and was released. Denisa Lazar—the only Romanian citizen involved in drug trafficking so far—was sentenced to 2.6 years in prison.

As an epilogue, here are some things for our lawmakers to reflect upon. Cairo: Agence France Presse reports that a Cairo court handed down death sentences for six foreign citizens—five Syrians and a Saudi Arabian—who were found in possession of 7 kilograms of heroin, brought into Egypt by drug rings to which they belonged. The value of the confiscated drugs was about seven million dollars.

Bucharest: Press agencies have not reported that in the past one and one-half years, some 27 foreign drug traffickers have been apprehended in Romania, and more than 46 kilograms of drugs have been confiscated from them. For that crime, the penal code stipulates a prison sentence with a maximum of five years. According to the new regulations, sentenced traffickers can be released on bond, amounting to about 300 lei for each day of detention. Thus, most of the persons arrested and sentenced have been released and have left for their countries, after paying modest sums, totalling several thousand dollars.

P.S. Yesterday, 26 June, was International Drug Awareness Day.

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